DOCUMENT RESUME

ED 116 575 HE 007 010

TITLE	Examination into the High Default Rate and the New Policy of the Department of Health, Education, and Welfare in Regard to Refunds Due to Students Attending Schools and How Those Refunds Affect the Amount of Federal Guarantee. Hearing before the Subcommittee on Education of the Committee on Labor and Public Welfare, United States Senate, Ninty-Fourth Congress, First Session.
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Committee on Labor and Public Welfare.
PUB DATE	5 Mar 75
NOTE	190p.
EDRS PRICE	MF-$0.76 HC-$9.51 Plus Postage
DESCRIPTORS	*Educational Finance; *Federal Legislation; *Federal Programs; *Higher Education; *Student Loan Programs

ABSTRACT

This document discusses facets of the guaranteed student loan program that have been brought into sharp focus by various actions of the Administration. They have sent to the Senate suggested legislation that attempts to deal with the high default rate in the program. Also discussed are the continuing high default rate, and the new policy on the part of the Department of Health, Education, and Welfare with regard to refunds due to students attending schools and how those refunds affect the amount of the Federal guarantee. (Author)

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REVIEW OF HIGHER EDUCATION PROGRAMS, 1975

HEARING

BEFORE THE

SUBCOMMITTEE ON EDUCATION

OF THE

COMMITTEE ON LABOR AND PUBLIC WELFARE UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

EXAMINATION INTO THE HIGH DEFAULT RATE AND THE NEW POLICY OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE IN REGARD TO REFUNDS DUE STUDENTS ATTENDING SCHOOLS AND HOW THOSE REFUNDS AFFECT THE AMOUNT OF FEDERAL GUARANTEE

MARCH 5, 1975

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
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Printed for the use of the Committee on Labor and Public Welfare

U.S. GOVERNMENT PRINTING OFFICE
57-316 O WASHINGTON : 1975

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CONTENTS

CHRONOLOGICAL LIST OF WITNESSES

WEDNESDAY, MARCH 5, 1975

Page

Bell, Hon. T. H., U.S. Commissioner of Education, Department of Health, Education, and Welfare, acompanied by Edward T. York, Jr., Deputy Commissioner for Management; Charles M. Cooke, Jr., Deputy Assistant Director for Legislation (Education); and Kenneth Kohl, Associate Commissioner 1
  Prepared statement 26
Tobey, Robert E., president, Consumers Bankers Association and first vice president, the National Bank of Detroit; James L. Smith, senior vice president, Security Pacific National Bank, Los Angeles, Calif.; E. S. Amazeen, Jr., vice president, First National Bank of Boston; and Drew Tidwell, legislative representative, Consumer Bankers Association, a panel 51
  Prepared statement 59
  Additional statement 62

STATEMENTS

Bell, Hon. T. H., U.S. Commissioner of Education, Department of Health, Education, and Welfare, accompanied by Edward T. York, Jr., Deputy Commissioner for Management; Charles M. Cooke, Jr., Deputy Assistant Director for Legislative (Education); and Kenneth Kohl, Associate Commissioner 1
  Prepared statement 26
Consumer Bankers Association, prepared statement 62
Tobey, Robert E., president, Consumer Bankers Association and first vice president, the National Bank of Detroit; James L. Smith, senior vice president, Security Pacific National Bank, Los Angeles, Calif.; E. S. Amazeen, Jr., vice president, First National Bank of Boston; and Drew Tidwell, legislative representative, Consumer Bankers Association, a panel 51
  Prepared statement 59
  Additional statement 62
United Student Aid Funds, New York, N.Y., prepared statement 187

ADDITIONAL INFORMATION

Articles, publications, etc.:
  "Rough Figure of Number of Borrowers Under Both the Federal and State Program Who Have Invoked the Defense of Infancy" 15
  "Specific Definition of Actual Amounts of Refunds That Will Be Calculated and Due as the Result of the Proposed Rule," from guaranteed student loan program, proposed rules, from the Federal Register, March 25, 1975 19
  "Student Loan Servicing Program, First Minneapolis Has an Idea for You," from First National Bank of Minneapolis, Minneapolis, Minn. 71
Communications to:
  Bentsen, Hon. Lloyd, a U.S. Senator from the State of Texas, from B. B. Elkins, president, Elkins Institute, Dallas, Tex., February 7, 1975 (with enclosure) 182

REVIEW OF HIGER EDUCATION PROGRAMS, 1975

Guaranteed Student Loan Program

WEDNESDAY, MARCH 5, 1975

U.S. Senate,
Subcommittee on Education of the
Committee on Labor and Public Welfare,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 4232, Dirksen Senate Office Building, Senator Claiborne Pell, subcommittee chairman, presiding.

Present: Senators Pell and Stafford.

Committee staff present: Stephen J. Wexler, counsel; and Gregory Fusco, minority counsel.

Senator Pell. The meeting of the Subcommittee on Education will come to order.

Today's hearings will discuss certain facets of the guaranteed student loan program which have been brought into sharp focus by various actions of the Administration. They have sent to the Senate suggested legislation which attempts to deal with the high default rate in the program.

Today's hearings will discuss not only that proposed legislation, but also the continuing high default rate, and the new policy on the part of the Department of Health, Education, and Welfare with regard to refunds due to students attending schools and how those refunds affect the amount of the Federal guarantee.

Our first witness today will be the Department of HEW. They will be followed by a panel of bankers.

Commissioner Bell, please proceed.

STATEMENT OF HON. T. H. BELL, U.S. COMMISSIONER OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY EDWARD T. YORK, JR., DEPUTY COMMISSIONER FOR MANAGEMENT; CHARLES M. COOKE, JR., DEPUTY ASSISTANT DIRECTOR FOR LEGISLATION (EDUCATION); AND KENNETH KOHL, ASSOCIATE COMMISSIONER

Mr. Bell. I am happy, Mr. Chairman, to appear before you today to discuss the Administration's legislative proposals "To amend the Higher Education Act of 1965 to decrease the amount of defaults under the Guaranteed Student Loan Program, to amend the Bankruptcy Act to limit the dischargeability in bankruptcy of educational debts, and for other purposes."

Before discussing our new proposed legislation, let me bring you up to date on certain matters. In September, I testified before the subcommittee with the major emphasis on the default problem and the administrative actions which were being taken and those which were contemplated in the future. We also provided you with statistical data on the federally insured phase of the program, and emphasized that this should not be confused with data relating to loans guaranteed by State and private nonprofit agencies. And, finally, we indicated that resolution of the operational difficulties incurred in the guaranteed student loan program were dependent upon reliable information, adequate resources, and proper regulations.

In connection with regulations, we should report several developments. On October 17, we published in the Federal Register proposed regulations which, for the first time, set forth requirements and standards with which educational institutions would have to comply in order to participate in the guaranteed student loan program. These same regulations also set forth detailed due process procedures for the limitation, suspension, or termination of any postsecondary institution or federally insured lender which do not comply with the regulations. Public hearings were held in Washington, D. C. Chicago, and San Francisco on the proposed regulations. As a result of the comments received, both at the hearings and in writing, numerous changes were made and final regulations were published in the Federal Register on February 20. We are convinced that these new regulations will do much to reduce the default problem by providing (1) that students receive better information about schools and colleges before enrolling; (2) that each participating educational institution maintains a fair and equitable refund policy and that refunds are paid on a timely basis; (3) that institutions providing vocational, trade, or career programs utilize appropriate admissions criteria and provide students with relevent employment information; (4) that correspondence schools provide students with a schedule setting forth what is required in submitting lessons, and also further clarify when withdrawal occurs and repayment commences for such students; and (5) that each educational institution adopt certain procedures and maintain records which will be subject to inspection and audit by the Office of Education in order to determine that an institution is protecting the interests of students and the Federal Government. The regulations also establish new disbursement procedures, clarify some existing definitions, and add other new provisions which should improve the administration of the program.

On February 24, we published a notice in the Federal Register providing an interpretation as to the amount of loss that would be paid by the Federal Government on claims originated by school lenders. The problem has several major aspects, including unpaid refunds and the closing of an educational institution. In the very near future, a proposed regulation will be published in the Federal Register setting forth detailed rules and procedures regarding default claims. This regulation is now in the final clearance stages.

Thus far, we have described both the administrative and regulatory steps taken to attack the default problem. But legislative changes are also needed and, for the last several months, we have been studying the problem in order to determine those changes to the enabling legislation that could further reduce the default rate. We would like to clarify at this time the major provisions of the Administration's proposal.

DEFENSE OF INFANCY

Under present law, students may borrow under the federally insured phase of the program without security or endorsement, even though, under applicable State law, they may be minors. Upon completing their education, some of these students have disavowed their debts on the grounds that their loan was invalid due to their age at the time the note was executed. Most State guarantee agencies do not have this problem because their State laws rule out the defense of infancy. While this is not a major problem, it is a bothersome one. We propose, in section 2 of the bill, that the Federal program take a similar approach.

MINIMUM REPAYMENT PERIOD

Present law requires leaders to provide borrowers with a repayment schedule of not less than 5 years—and a maximum of 10 years—unless to do so would result in annual payments of principal and interest of less than $360, in which case a shorter term is required. Some students wish to repay their loans in less than 5 years and, recognizing that more interest is payable over the longer term, have refused to sign notes for the minimum 5-year term. Section 3 of the proposed legislation would provide that the student may waive the minimum 5-year repayment period by requesting that the note provide for repayment over a shorter term. This provision would apply to both State and Federal programs. At any time before total repayment, the borrower would be able to have the shortened period extended to a total of 5 years. In order to prevent any coercion by the lender as a condition for giving a loan, such a waiver may only be requested after the student graduates or withdraws from school.

MINIMUM PAYMENT FOR MARRIED BORROWERS

Present law requires each borrower to repay his loans at an annual rate of not less than $360, principal and interest. If two students marry, both having loans outstanding, each is required to repay not less than $360 each year. In some cases, this presents a hardship, especially if there are young children and one spouse is unable to work. It is proposed in section 4 of the bill that, in the case of a husband and wife, both of whom have student loans outstanding, the combined minimum annual payment on those loans would be the same as for a single person—$360 a year, rather than $720 a year. This provision would apply to both the State and Federal programs.

ENCOURAGE LENDERS TO MAKE MULTIPLE DISBURSEMENTS

Many defaults are caused by student dropouts. Because most lenders disburse the loan in a single installment before the academic year begins—to reduce administrative costs—the student dropout has the entire loan to repay, even though he did not complete the academic period for which the loan was obtained. However, if we could encourage lenders to make multiple disbursements, only a portion of the loan would be disbursed to students who drop out early in the academic year, thus substantially reducing the amount of claims paid by the Government if such students default. For example, if the $1,500 loan were disbursed in three equal installments over the academic years, only $500 would have been disbursed to a student who withdrew in the first quarter of a three-quarter academic year. If this student subsequently defaulted, the principal amount of the claim would be $500 rather than $1,500 as is now usually the case.

Section 5 of the bill would authorize certain lenders under both State and Federal programs to receive interest subsidy payments on the entire amount of the loan to a student for a given academic year, even though the lender disburses such loan in installments over the course of that year. By providing the interest subsidy on the entire loan, lenders would be encouraged to make multiple disbursements. Any lender desiring to receive such interest payments on the basis of multiple disbursements would be required to obtain approval from the Commissioner. It should be noted that the interest cost to the Federal Government would be the same as though the lender had made a single disbursement as almost all now do. We also propose that this provision be limited only to commercial lenders, as school and State agency lenders are not in the loan business to make a profit on the interest yield on student loan paper, and they would be required by our regulations, published on February 20, to make such multiple disbursements. Because the result would be to increase commercial lender yield, such lenders should be more willing to make multiple disbursements.

REQUIRE EDUCATIONAL INSTITUTIONS TO PROVIDE STUDENT ADDRESS AND ENROLLMENT DATA

One of the problems in trying to determine student status or latest address is that certain State laws prohibit the schools from releasing this data without the written consent of the student. In many cases, defaults could be prevented or recoveries made on defaulted loans if schools were required to provide this information. Section 6 of the bill would require each eligible institution to establish policies and procedures to provide the latest known address and enrollment status of a student borrower to the commissioner, a State or nonprofit private guarantee agency which has insured the loan, or the lender.

INELIGIBILITY OF DEFAULTING STUDENT FOR FURTHER STUDENT ASSISTANCE

There are students who, after defaulting on a guaranteed student loan, return at a later date to another or the same educational institution. Some of these students attempt to borrow again under the guaranteed student loan program and, although there is no data available, could very well apply for and receive basic educational opportunity grant. As a general rule, we do not believe that such students should be eligible for further financial assistance under these programs until they have taken care of their loan obligation. Section 7 of this bill provides that any student who defaults on a guaranteed student loan would thereafter be ineligible to receive a basic grant or another guaranteed student loan unless he subsequently repaid the loan in full or made satisfactory arrangements for repayment. I would like to emphasize that latter part, Mr. Chairman, because we would not be demanding immediate payment, but we would ask for satisfactory arrangements for repayment. The commissioner is required under this provision to give the student an opportunity to show cause why such a determination should not be made and the commissioner may decline to make such a determination if he finds that the circumstances leading to the prior default of the student were beyond his control. This provision applies both to the Federal and State programs.

EXCLUDE PROPRIETARY SCHOOLS AS ELIGIBLE LENDERS

In our assessment of the default problem, it has become clear that certain types of lenders have contributed to the problem in a manner that is disproportionate to their volume of loans as compared with other categories of lending institutions. Commercial banks have the best record. Educational institutions who are lenders, the worst. The high default and delinquency rates of school and college lenders have been under review for the last few years, and major efforts have been underway to screen their initial participation and provide for an annual review of their lending activities. While this has helped to some extent, problems still persist. For example, we have examined carefully the data derived from our annual "call report" which all lenders are required to submit. This report provides information on loans outstanding, loans in repayment status, and delinquency data on loans in repayment. Delinquency rates are calculated on all loans that are 30 days or more delinquent.

At the end of fiscal year 1973, the national delinquency rate for all lenders was 11.73 percent. This applies to both the Federal and the State programs. By the end of fiscal year 1974, this had risen to 13.1 percent, based on preliminary reports out of our system.

As a result of our efforts to more closely monitor educational lenders, the delinquency rate for college and university lenders declined from 36.3 percent at the end of fiscal year 1973 to 30.8 percent at the end of fiscal year 1974.

However, with proprietary school lenders, where most of our major efforts were directed, their delinquency rate increased from 38.5 percent at the end of fiscal year 1973 to 46.3 percent at the end of fiscal year 1974. This figure requires clarification because the call report indicates only loans currently held by the school lender. Many of the proprietary schools have been able to sell their paper to other lenders. We suspect that, if the data were available, the delinquency rate of proprietary school lender's originated paper would be even worse. Because there has been so much movement of proprietary school originated paper, we are unable to have good data on either delinquency or default rates.

We are now convinced that the best solution would be to amend the statutory definition of "eligible lender" to exclude proprietary institutions from that term. Section 8 would make such amendment.

We must emphasize that we are in no way suggesting that proprietary school students be excluded from being able to borrow under the program. We feel that prudent administration of the guaranteed student loan program should recommend that such schools not be permitted to take part as lending institutions. Thus, we would propose that such institutions be permitted to continue to be lenders until June 30, 1978, with respect to those students to whom they have already made loans and who need additional loans to continue or complete their educational programs.

DISCHARGEABILITY IN BANKRUPTCY OF EDUCATIONAL LOANS

There has been on increase in student loan bankruptcies. From the inception of the program through fiscal year 1972; these totaled 2,146 for $2.4 million. The cumulative total reached 8,969 for $11.3 million as of February of 1975.

There has been much criticism in the press over the number of students who borrow under the guaranteed student loan program and then fail to honor their obligation to repay by taking personal bankruptcy. While, as a percentage of total loans or total defaults, bankruptcies are a relatively small part of the problem, in absolute numbers the growth has been significant. A congressionally appointed commission considering changes to the bankruptcy laws has recommended to the Congress that education loans be exempt from bankruptcy during the in-school period plus the first five years of repayment.

As it may be a long time before the bankruptcy laws are revised, we are proposing a separate amendment to accomplish this purpose. Section 9 of the bill would amend section 17 of the Bankruptcy Act to provide that educational debts would be exempt during the in-school period and the first 5 years of repayment. Enactment of this provision will have an immediate effect on reducing the number of bankruptcies in the student loan program.

While some students may still default on their loans, such losses may still be recoverable, whereas presently they are not, if the student's debt has been discharged in bankruptcy.

Mr. Chairman, that completes our summary of this legislative proposal.

We shall be pleased to answer any questions.

Senator PELL. Thank you, Commissioner Bell, for a very excellent statement which I have had the opportunity to review. It has many good ideas.

Incidentally, in connection with that last point about the bankruptcy provisions, that would have to be referred to the Judiciary Committee. You may have to break the proposed bill into two proposals. Otherwise, we might find the education portion locked up in another committee, or we could secure some kind of agreement from them.

Would you be kind enough to introduce your colleagues for the record?

Mr. **Bell**. Yes.

Charles Cooke, Deputy Assistant Secretary for Legislation from the Department of HEW. Mr. Ed York, who is Deputy Commissioner for Management in the Office of Education. It is in his organization that this program is lodged. Kenneth Kohl, the Associate Commissioner, in charge of the guaranteed student loan program, just joined us in September 1974. He has a financial aid officer with Princeton University.

Senator **Pell**. Now, going to the basic question as to the present rate of default, about 6 months ago we were discussing whether it was 24 percent or 18 percent. The GAO estimate was 24 percent, and the Office of Education estimated 18 percent.

Now, as I understand it, you are saying that the present general rate of default is 11 or 12 percent.

Mr. **Bell**. Mr. Chairman, this is a different matter from default. This is the delinquency matter. I think I ought to call on Mr. Kohl or Mr. York. Mr. York, maybe you can make that distinction. I do not think we made that distinction as well as we should have.

Senator **Pell**. I would like to be educated on the difference between delinquency and default.

Mr. **York**. Yes, Mr. Chairman. We refer to the delinquency rate, which is in fact not the same as the default rate. The delinquency rate refers to those numbers of loans where the borrower, after the loan has matured, is past due in making his payment.

Senator **Pell**. I am sorry, repeat that.

Mr. **York**. Where the borrower, after the loan has matured, and payments are due, is delinquent in making payments. That does not mean the claims have been filed with the Federal Government.

If a payment is due after the maturity of the note, and the borrower does not make the payment within 30 days after the date the payment is due, the note is considered to be delinquent.

Defaults, on the other hand, relate to claims that have in fact been filed with the Federal Government, where the lender has determined, proceeding through due diligence, and all the other things he is required to do, that that loan is uncollectible as far as he is concerned, a claim is then filed with the Federal Government, and we pay the lender the amount due under that loan.

Senator **Pell**. It is the degree of seriousness, like absent without leave, or deserting?

Mr. **York**. Yes, that probably is a fair analogy.

Senator **Pell**. Why is delinquency, which is less serious, a smaller percentage than the default rate?

Mr. **York**. Because in discussing delinquency rates, we are talking about the total program versus just the Federal program on the default side.

Senator **Pell**. I see. So the delinquency rate is like a stage that you go through before you get to default?

Mr. **York**. That is correct. Every delinquency would not become a default. There may be many cases why a student would fall 2 weeks or 30 days, or 60 days behind in payments, but continue to make payments.

Senator **Pell**. The default rate would not include the delinquencies?

Mr. **York**. No, they are different.

Senator **Pell**. In other words, when the GAO, or you say that the default rate is somewhere between 18 and 24 percent, that would not include the 11.73 delinquency?

Mr. **York**. That is correct.

Senator **Pell**. You would have to add that onto it?

Mr. **York**. I am not sure that you can make an addition and come up with a meaningful figure. There is such a distinction between the two in that delinquencies do not necessarily become defaults.

Senator **Pell**. But everybody who is in default has been delinquent.

Mr. **York**. That is true.

Senator **Pell**. So in other words one would fit into the other.

What do you consider your present rate of default?

Mr. **York**. Our present rate of default is essentially, as we testified to you about 6 months ago, and it is 18 percent in the Federal program, and approximately 11.3 percent in the combined program, Federal and State guaranteed agency program.

Senator **Pell**. You would adhere to your figures over those of the GAO?

Mr. **York**. Well, sir, as we testified to you before, we do not dispute the figures that the GAO provided you.

As a matter of fact, we agree with them completely. But there is a certain assumption which goes along with that 24 percent that GAO provided. That assumption is that no further loans would be made after June 30, 1974. And that the default rate then relates to all of those loans that had already matured and would mature that had been made prior to June 30, 1974.

The default rate figure of 24.3 percent is a linear extrapolation and a forecast only if no action were taken to correct existing problems. Our 18 percent figure is an estimate through fiscal year 1975 and does not envision the program ending as of June 30, 1974, but includes further loans being made, a larger matured volume, and our being able to take some actions to reduce in fact that default rate.

Mr. **Bell**. My feeling, Mr. Chairman, is that that rate may even climb higher under the present economic situations.

Senator **Pell**. This is what I was going to go into.

Mr. **Bell**. Because of the large amount of youth unemployment, I think we ought to candidly admit that this is a very real possibility. I am worried about that prospect.

Senator **Pell**. I recognize that, and as far as the amount that is predicted goes, it would depend really on the state of the economy in great part.

Mr. **Bell**. Yes. One of the questions often raised, and I might just offer this, is why the State rate is so much lower than the Federal rate.

We are sort of getting the needle on that now, and we are asked why our rate differs from theirs. And among other things, we guarantee all eligible institutions, and we have many more private proprietary institutions.

In fact, in some States, where they just work with the public and nonprofit institutions, we, by law, underwrite or guarantee directly the private proprietaries, and that is where the higher rate is. That has something to do with the quite large difference there is.

They do have some programs which do cover some proprietary students. We ought to constantly be looking at how some States manage this, with a low default rate, and ask ourselves if we can learn more about it.

I am not trying to obscure the fact that there is a possibility that they are better managers than we are here on the Federal level.

Senator PELL. In fiscal 1974 the appropriation necessary to cover defaulted loans was about $90 million. For fiscal 1975 the administration estimated $115 million would be needed. Rising default rates required you to increase this figure to $198 million, a rise of $83 million over the original estimate.

Yet for fiscal 1976, the coming fiscal year, the budget asks for $202 million to cover defaults, an increase of only $4 million.

How is it that you estimate such a low rate of increase, particularly in light of the present depressed conditions of the economy?

Mr. BELL. Mr. York, would you respond to that?

Mr. YORK. I think there are a number of factors, Mr. Chairman, which relate to that. Certainly an important factor is the substantially increased collection efforts that we are undertaking under this program, which we estimate will return substantial additional dollars in fiscal year 1976, much more than we had been able to collect on defaults in previous years.

Also, we believe that some of the actions we have taken administratively, and through regulatory procedures, will start to have an impact on that overall default rate.

We really see a leveling of the eventual loss rate to the Government. The actual default rate itself, the claim rate, numbers of claims filed with us may still increase slightly. But our efforts to get collections, and therefore affect the eventual loss rate to the Government we think is leveling.

We see a leveling for 1976 of the actual loss rate to the Government. That basically is the answer.

Senator PELL. Since we last spoke with each other at the hearing, you have increased the number of people who are engaged in trying to collect these loans.

Has it doubled in number, increased by 50 percent, what is the percentage?

Mr. YORK. Much more than that, Mr. Chairman.

If we go back to February of 1974, we had a total of 26 people who were dealing with collections under the Federal program. Now, recognize that is about half of the program. In the State program we do not make collections on the defaults. The States have that responsibility.

At this point in time we have 135 positions allocated for collections in our regional offices with 129 of those filled. So there has been a very, very substantial increase in the amount of personnel.

I might point out that although we have had this substantial increase in the past few months, that the lag between growth and volume in this program, and the provision of resources, personnel resources, to stay up with this, has run between 2 and 3 years. There has been a 2- to 3-year lag between a tremendous volume increase in the program and the provision of additional resources to try to stay on top of the program.

Senator Pell. The difference between the State and Federal programs, from the point of view of collection, is in favor of which group?

Mr. York. It was in favor of the States.

Senator Pell. The States are doing a better job in collecting?

Mr. York. Yes, they were.

Senator Pell. Why would that be?

Mr. York. I think to the degree that relates to the fact that they have had substantially more resources, if you look at the total State programs, the total resources of all of those State programs, far exceed the number of people who are monitoring the Federal program.

Mr. Bell. I believe also, Mr. Chairman, it relates to the fact that we make loans to a higher risk clientele than most of the States do—to many of the private proprietary groups, and to many low-income groups. This may have a factor in it.

Senator Pell. How is the decision made that some States will have their own program and other States will not?

Mr. Bell. That is up to the States, Mr. Chairman, by their own State enactment, and their own State legislation.

Senator Pell. When a State does it, the Federal Government does not get into the picture completely then?

Mr. Bell. That is not entirely correct. For most State programs, we reinsure the guarantee agency to the extent of 80 percent of its losses on defaults and 100 percent for death and total and permanent disability cases. Loans guaranteed by these States are also eligible for Federal interest benefits and special allowance payments. In addition, we do provide Federal insurance to lenders in States for lenders which operate on an interstate basis and for students attending schools not eligible under the State program. This is one reason why we have such a significant proprietary school volume in the Federal program and why Federal loans are being made in all 50 States.

Mr. York. Although there are 26 State programs, the Federal program is operative in all 50 States, because the State programs do not cover the entire universe of students who are seeking loans. And any State where the State program does not provide access, the Federal program does.

So that we in fact operate in all 50 States, even though there are State programs in 26 of those States.

Senator Pell. You are like the SBA would be to the commercial banks.

Mr. York. At least we insure those loans that the State will not insure.

Mr. Bell. It might be of interest, Mr. Chairman, to say just for the record that since the program started we have made over 7 million loans. And a total of almost $7.7 billion, and there are nearly 1 million new loans a year made to students participating in the program.

One of the things we are interested in is the cost-benefit study on this.

We know what it is costing the Government. We have read a lot about the high default rates in the press, and we are also concerned about it.

We think that maybe some study of the economics of this program, what it is doing for making taxpayers out of persons who otherwise may be tax eaters, and so on, may have some interesting aspects to it.

We are interested in doing a detailed analysis and cost study on the cost benefits of the program.

Senator PELL. Could you give us a brief overview of what is happening at the Dallas regional office and Amherst, Mass? Both of these have been drawn to my attention by the press reports.

Mr. BELL. I will call on Mr. York and Mr. Kohl to talk about this.

Mr. YORK. In the Dallas situation, Mr. Chairman, there is an ongoing investigation which at this point is within the control of the U.S. Attorney. There are at least three Federal bodies involved in that investigation; the FBI, the Customs Service and the Department of Health, Education, and Welfare through its Office of Investigations and Security.

Because of the fact that it is an ongoing investigation, there is not a great deal of information that we have available to us, or that we can disclose in any open forum. It is of public record that at this point there have been four employees discharged, and there was one further employee who was suspended, and upon being suspended, resigned. All five of those were in fact employees of the Guaranteed Student Loan Program in the Dallas office.

As I say, that investigation is ongoing, and we are not sure how long it will take for the U.S. Attorney to conclude that investigation.

Senator PELL. What is happening with regard to the program there? Do you have new people who have gone in to administer it? Is the program going on?

Mr. YORK. Yes, sir. We asigned a senior person from our San Francisco regional office to move into it and to take over the running of that program in the Dallas office, and the program is operating on a day-to-day basis.

We are doing everything we would normally do in that program, while at the same time trying to assist the U.S. Attorney in his investigation.

Senator PELL. How many people were in the office before the investigation started?

Mr. YORK. I am not sure of what the number is.

Senator PELL. A dozen, two dozen?

Mr. YORK. Fifty-one positions are assigned to the Dallas office this fiscal year.

Senator PELL. Your thought is there are only four or five rotten apples in that whole barrel?

Mr. BELL. I think we ought to be very cautious about that, Mr. Chairman. That is all we know of at this time. But the investigation is going forward, and we hope that that is all there are, but I think we ought to be very careful and very open about the fact that we just do not know. We may have more than that.

Mr. York. It might be important to know that as a result of some of the things that have been disclosed that led to the four employees being discharged, we have an ongoing study in all of the regional offices related to our procedures for handling collections.

This review is being made by the HEW audit staff to insure we have adequate control of all the cash flow in all the other regional offices.

Senator Pell. Does the Department have the equivalent of an inspector's office?

Mr. York. The Department of HEW, at the Department level, has an Office of Investigation and Security, and we call on them.

Mr. Bell. We do not have such an office in Dallas, so the Atlanta officials had to come over.

Senator Pell. What officials?

Mr. Bell. The Atlanta regional office investigative officials were assigned to the case. HEW investigative staff is quite limited. They have only seven investigators in field offices, and only two to cover the 15 States in regions IV and VI. They did not have any stationed in the Dallas office.

Senator Pell. What exactly happened? Could you give a brief minute summary of what occurred?

Mr. York. There were apparently some unusual procedures being used in some of the collections activity, and there were questions raised as to whether all payments that were in fact received in the office were credited to the accounts of the students who made the payments.

Mr. Bell. I wonder if Mr. Kohl ought to add a little bit more to this.

Mr. Kohl. There is also the current possibility that certain loans were insured at the regional office level, and should not have been insured.

Senator Pell. For what reasons should they have not been insured?

Mr. Kohl. They were ineligible for insurance from the standpoint of the student, the school, or what have you.

Mr. Bell. One of the things, Mr. Chairman, that we are concerned about is that we have rushed a large number of new employees into this program, and we are concerned about the fact that with that large number, and our urgency to get on top of the program, that we have adequate training and adequate understanding of procedures. And as happens in a new program, new staff members, there is a certain shakedown period when they do not know their duties as well as they ought to.

I should indicate we have had training for these staff members, and we have to ask ourselves if it were effective enough.

Of course, in the matter of dishonesty, I guess no amount of training could take care of that, obviously.

Senator Pell. I am not sure shakedown is the right expression.

Why is the Customs Bureau involved?

Mr. York. I am not sure we can adequately speak to that, because it is an ongoing investigation.

Mr. Bell. I think we can say there may have been some other activities not involved in the Guaranteed Student Loan activity.

Senator **Pell**. Maybe we will get the Narcotics Bureau in next.

Now, can you explain what is going on at Amherst, Mass., although I realize the inhibitions caused by an ongoing investigation.

Mr. **Bell**. I think Charlie Cooke can respond to that. I do not believe it is directly GSL.

Mr. **Cooke**. My understanding on that one is that this is undergoing investigation by the FBI currently. I do not have a lot of up-to-date data on it.

I believe the U.S. Attorney is also in this investigation.

I am not yet seeing any evidence exactly of what Office of Education money is involved in this. I do not believe, at least what I have seen so far, that there is any guaranteed student loan money.

My understanding was that there were some allegations with regard to the use of Federal moneys which essentially was OEO money, I believe, that was going to the University of Massachusetts in Amherst for career opportunity program. But that is sort of the level of my understanding of this problem. It is under investigation at the current moment.

I can attempt to get further information for you.

Senator **Pell**. It seems to me that our information is coming from the press at this point.

If there is anything that can supplement the press report, we would be very interested in having it.

Going to your suggestion about eliminating the defense of infancy, so students can be held accountable for loans, no matter what his age was, would having a cosigner who is an adult be as effective a remedy?

Mr. **Bell**. We considered that, I am sure.

Mr. York, would you respond?

Mr. **York**. I would like to call on Mr. Kohl to respond to that.

Mr. **Kohl**. A coborrower, if I understand your question, it is why is not a coborrower or comaker good——

Senator **Pell**. A cosigner.

Mr. **York**. Usually what this will do, Senator, is sometimes inhibit the lending of the fund because there are many times that we understand low-income students cannot get a comaker, yet they still need these funds to go to school.

So I think that would work in some cases, but it would not in all.

If we are interested in access, I think defense of infancy has to be part of this legislation.

Senator **Pell**. What happens when a student has gone into default, dropped out for a year or two so he can earn more money to continue school, and then been penalized because he is in default and cannot get a basic grant?

Mr. **Kohl**. You mean refusing the student additional funds because he has defaulted?

Senator **Pell**. Yes.

Your legislation would say no more funds could be loaned nor could a basic grant be granted when the student is in default.

Yet, the very student who is in default might have defaulted to earn more money to complete his school.

Mr. **Kohl**. We were very careful in this area. We saw this pitfall. That is why we put that piece in there about satisfactory arrangements being made.

17

We would not just cut him out of everything and blacklist him, because he is a defaulter. We find students who default because of inability to pay, true inability, should positively be allowed to continue with some sort of Federal funding. That is why that piece is in there.

Senator **Pell**. How do you determine that?

Would a student, let us say, in Topeka, Kans., where the nearest Office of Education may be a long way away——

Mr. **Kohl**. Kansas City.

Senator **Pell**. How would that youngster make his need known?

Mr. **Kohl**. I think he would have to communicate with the regional office, and they would have to make an individual judgment, sir.

Senator **Pell**. That would be pretty difficult for many youngsters of 18 in the ghetto areas.

Mr. **Kohl**. It would depend upon their need for the money.

I have found that when funding is desperately necessary, they will do almost anything. As a matter of fact, students who cannot get loans regularly call me, so I am not inclined to state they would be reluctant to do that, sir.

Senator **Pell**. I am not sure I would agree with you.

I think the basic grant should remain as is; as a matter of right, with no inhibitions on it. Perhaps a compromise that Congress may make on this is to leave the basic grant still available even if the youngster is in default but have a special requirement for the loans.

What would be your reaction to that?

Mr. **Kohl**. I think that is an alternative, sir.

Senator **Pell**. How disagreeable is that alternative to the Administration?

Mr. **Kohl**. Well, I know the basic grant is considered a right, but we are dealing with Federal assistance.

Now, is it unreasonable for us to ask a student's cooperation in arranging to repay a loan through the lever of the basic grant?

I do not think it is unreasonable for us to do that. After all, we are providing the student with an education, in effect. And, in return, I think he would be willing to cooperate, or she would be willing to cooperate, with us.

Senator **Pell**. I just see more problems than you do for the youngster that is involved.

Mr. **Kohl**. I am familiar with the bureaucracy, but only lately, sir.

Senator **Pell**. Would you define for the committee your idea of a fair and equitable refund policy?

Would it apply to private schools like Harvard and Yale, and State-run schools, as it does to proprietary institutions?

Mr. **Bell**. Would you respond to that, Mr. Kohl?

Mr. **Kohl**. Yes, sir.

It would apply to all schools. It would apply to Harvard as well as to Computer Learning Center.

The definition of equitable rebate is laid out in those——

Senator **Pell**. How would you define it?

Mr. **Kohl**. I think the elements for definition were laid out in there. But the reason we did not come out with, let us say, pro rata rebate policy for all schools is that we felt all schools were different, and we would have to make decisions in many individual cases.

Senator **Pell**. Going back to the infancy question for a moment, can you furnish for the record the number of borrowers under both Federal and State programs who have invoked that defense?

Mr. **York**. As much as we would like to, Mr. Chairman, we just do not have that data.

Senator **Pell**. Can you dig it up?

Mr. **York**. I am not sure how we can get it at this point. We just do not have solid data.

Senator **Pell**. Is there any way you can give us a rough figure?

Mr. **Bell**. I think we ought to make an attempt on that.

It is pertinent to our testimony, and I think we ought to make every effort to provide that for you, and we will struggle with that, Mr. Chairman.

[The information subsequently supplied follows:]

Rough Figure of Number of Borrowers Under Both the Federal and State Program Who Have Invoked the Defense of Infancy

As we indicated, data are not collected which would permit us to provide a solid estimate. Under the guarantee agency programs, the defense of infancy is generally not a problem as most state laws under which these agencies operate prohibit the infancy defense. In addition, there is no statutory prohibition against obtaining endorsors as there is under the Federal program (except if under the applicable law, the agreement would not create a binding obligation). Two guarantee agencies require endorsors, (one only for those under 21 years of age), twenty-one agencies permit endorsors at the option of the lender and six of these require endorsors for married students. Only three agencies prohibit endorsors. The number of borrowers who have invoked the defense of infancy is, therefore, negligible.

Under the Federal program, if we were to assume that 5 percent of cumulative defaults to date could be attributed to the use of the defense of infancy, the total number of borrowers would be 8,300. We would expect that this is a reasonable estimate but have no factual data to support this assumption.

Senator **Pell**. Thank you.

I agree with you two about the bankruptcy. It may be small quantitatively now, but its use is growing and you are right; sharp action should be taken to stop that.

I am concerned that the proprietary schools would be excluded. This is the most significant proposal you have made, that proprietary schools would be removed from this program after fiscal year 1978 as lenders themselves.

Will this not deprive the very groups in the community that most need basic education from getting it?

What would you think would be the impact of such a decision?

Mr. **Bell**. It was our feeling, and maybe Mr. Kohl and Mr. York ought to add to this, it was our feeling that they would be able to get their loans through the normal route, and we have been concerned because of the enormous default rate and a possibility of them using the loans as a capital for their institutions. That is why we must move in on this.

I share your concern, Mr. Chairman, about the whole matter of the student loan program. As we struggle with the default rate, we have got to make sure we do not lose sight of the purpose of the program which is to permit student access to schools.

If I can just deviate a minute.

Unlike a banker, we have the responsibility to make loans to those whose credit is not very good. That is the whole purpose of the program. So I think we should expect reasonably high default rates.

But it has been terribly high with private proprietary schools, particularly those which act as their own lenders, and recycle money. Because it is Federal money that is used to pay default claims, this has been a source of great concern to us.

Maybe you could add something, Mr. York, so we could give a more full response to what I think is a very pertinent question.

Mr. York. I think, Mr. Chairman, that we, with all the other things we are doing, we are trying as hard as we can to remove some of the unattractiveness that this program may have had in the past to commercial lenders. So I think our basic feeling is that if we can do enough of that, that we will not deprive these students of the opportunity to get a loan, by eliminating proprietary schools as lenders, that what we hope to be able to do is to encourage commercial lenders to participate in the program to even a greater extent and to pick up that piece of the program.

We are talking about a relatively small number of schools at this moment, 41 active lenders, I think, this would effect.

Senator Pell. Out of the present number of schools that are lenders, a small number are proprietary schools, you say only about 48——

Mr. York. There are 41 proprietary schools qualified as lenders at this point.

Senator Pell. These are what you call the sharper operators, these 41?

Mr. York. Yes, I would have to answer that in the affirmative.

Senator Pell. Then the whole spectrum of proprietary schools would not be too upset at this provision?

Mr. York. I would not attempt to speak for all proprietary schools, but it does not affect a large percentage of them. It only affects those who have previously been qualified as lenders and does not affect all the proprietary schools that have not been lenders under the program.

Senator Pell. Why wouldn't it be better to relate this to performance of a particular school? Therefore some of the proprietary schools that have really done very well and are doing a superior job, could continue to operate, while the others that have exploited students would be excluded?

Mr. York. That is basically what we have been trying to do up to now, Mr. Chairman.

The problem is that our action there is an after-the-fact action. We have to wait until the horse is out of the barn, if you will, in order to take action. We feel that this provision, that we are going to close that door before the horse gets away from us completely——

Senator Pell. Why not make it more basic?

Instead of pointing a finger at the proprietary, why not say that any institution that has a default rate of more than x percent, wherever you want to set it, is ineligible to be a lending institution?

Mr. York. In the regulations that were published on February 20, which will go into effect in the near future, we do have provisions such as that which will allow us to either limit, suspend or terminate either schools or lenders, who are not performing up to the standard that we think they should be in this program.

But, again, it is an after-the-fact determination. I think the statistics that we do have show that the default rate is so high coming from this particular category of lender, that we feel that it is necessary for us to remove them from the program, that category of lender.

Mr. Bell. I think Mr. Chairman, if you would agree, it might be well for us to discuss this in some detail with your staff and weigh the alternatives.

Senator Pell. The thought that goes through my mind would be if you set it at 50 percent, it would probably knock out all of these 48 sharp operating schools anyway, and yet would not prevent some good schools, like one I remember going through in my own home State a few weeks ago. It was the Hall Institute, a drafting and business school, and I was terribly impressed with the job they did and the placements of students who went through this school.

Mr. Bell. I think, in fairness, we should say we do not know that they are all sharp operators, but the probability ties are high.

Some of them may be very fine. The thing I want to avoid is classifying them all in a negative light here. We do know enough that this is a problem area.

One of the things, as we weigh the record, which we must do is to look at the clientele that some of them relate to. We might find a 20-percent default rate at one institution and a 35-percent rate in another institution that is serving a different clientele.

But I know this needs some examination and discussion, and we will be happy to go into it further with your staff.

Senator Pell. All right.

Finally, could you explain in very simple terms how the refund policy will operate?

It seems to me we are asking banks to take a loss if the student pockets the refund, or the school goes out of business and did not make a refund. You may find the banks tending to pull out of the program.

Also I would like to know whether this policy that you are proposing has been cleared within the Government by Treasury?

Mr. Bell. Yes, Mr. York, would you respond to both questions?

Mr. York. Mr. Chairman, are you referring to the public notice that was published on February 24?

Senator Pell. Yes.

Mr. York. I think that we have attempted to define in that notice what we think is a reasonable approach in only an outline form relating to refunds, and how refunds will be applied and not applied for the payment of claims.

We have not specifically defined what the amount of claim would be that would be due or not due other than set a basic parameter.

So we have not really defined specifically the amount of refund that is due or not due.

We have said that it should not be any more than an amount which is equal to the amount of education that the individual received during the period that they were in school. But that has a maximum, without defining what it should be within that context.

Senator **Pell**. Do you think you could sharpen up that definition within the next couple of weeks while the record is being left open?

Mr. **York**. Yes, sir; that is what we intend to do.

Regulations that are no win final clearance will define that in much more detail.

Mr. **Cooke**. I might respond, Senator, to whether or not the Treasury participated in the development of the notice of February 24, and I would say that Treasury was in the discussions with us as we began to develop that notice.

I would not say they had a formal concurrence, but they did participate in the initial discussion on development of that notice.

[The information referred to follows:]

SPECIFIC DEFINITION OF ACTUAL AMOUNTS OF REFUNDS THAT WILL BE CALCULATED AND DUE AS THE RESULT OF THE PROPOSED RULE.

The proposed rule published on March 25, 1975, does not provide a specific definition of actual amounts of refunds that will be calculated. The proposed amendments specify that, under certain circumstances, a refund which has become due but has not been paid will be treated as a payment by the student on the loan, and that under other circumstances, the lenders and assignees of loans will have responsibility to attempt collection of such refunds. Section 177.52 defines the conditions for the determination of the amount of loss on default claims and how refunds affect the amount of the unpaid balance. A copy of the publication is provided for the record.

federal register

TUESDAY, MARCH 25, 1975

WASHINGTON, D.C.

Volume 40 ■ Number 58

PART II

THE NATIONAL ARCHIVES OF THE UNITED STATES • 1934 •

DEPARTMENT OF HEALTH EDUCATION AND WELFARE

Office of Education

■

GUARANTEED STUDENT LOAN PROGRAM

Proposed Rules

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Office of Education

[45 CFR Part 177]

GUARANTEED STUDENT LOAN PROGRAM

Notice of Proposed Rulemaking

Notice is herby given that, pursuant to the authority contained in section 432 (a)(1) of the Higher Education Act of 1965, as amended (20 U.S.C. 1082(a)(1), the Commissioner of Education, with the approval of the Secretary of Health, Education, and Welfare, proposes to amend Part 177 of Title 45 of the Code of Federal Regulations, by amending §§ 177.44 and 177.49 and adding § 177.52, as set forth below. The purpose of these amendments is to clarify the amount of loss which will be paid by the Commissioner on default claims submitted by lenders holding loans which are insured under the Federal Insured Student Loan Program (Subpart E of 45 CFR Part 177) and to specify the responsibilities of lenders prior to filing such claims.

Under the Federal Insured Student Loan Program (FISLP), the Commissioner issues a certificate of insurance for a loan made to an eligible student by an eligible lender, insuring the loan against losses incurred by the lender because of the student's failure to repay the loan. For this purpose, an eligible lender may be a bank or other financial or credit institution, or agency or instrumentality of a State, or an institution of higher education or a vocational school, as those terms are defined in the Higher Education Act. The Act and the regulations further provide that insured loans may be transferred or assigned by an eligible lender to another eligible lender. If the student fails to repay the loan, the holder of the loan may file a claim with the Commissioner to be reimbursed for the "unpaid balance of the principal amount and interest."

(20 U.S.C. 1080(a)).

Several questions have been raised regarding how the amount of the unpaid balance of the loan should be computed in situations in which the student borrower may have claims or defenses which he could assert against the original lender or a subsequent holder of the loan. Although it has been generally understood and accepted that a promissory note made under the FISL Program is not a negotiable instrument and that a purchaser of such a note cannot become a "holder in due course," as those terms are defined by commercial law, questions have still remained concerning the proper interpretation and application of the Act and regulations. The major issues relate to: (1) Defenses which the student borrower may have concerning the origination of the loan; (2) the rights of a holder who has obtained the loan by transfer or assignment from the lender; (3) the treatment to be accorded refunds to which the student borrower has become entitled; (4) the consequences of an educational institution closing during an academic term; and (5) whether a lender which is not an educational institution but which has a special relationship to an educational institution, should be required to assume certain responsibilities or risks beyond those of other nonschool lenders.

1. *Defenses on the loan.* The FISLP Program is designed to insure lenders against the student's failure to repay the loan. It does not insure the lender, or a subsequent holder, against such legal defenses as fraud or forgery on the part of the lender or third parties in the making of the loan which would be available to the student. In addition, the Act, particularly at 20 U.S.C. 1077, and the regulations provide for a number of requirements which must be met if a loan is to be insurable. Subject to the provisions of the proposed amendment to § 177.44, the Commissioner will not guarantee a lender or a subsequent holder against a loan failing to be in compliance with these requirements.

The amendment to § 177.44 would permit a non-school lender, acting in good faith and without information to the contrary, to rely upon the certification provided by the educational institution that the student is eligible for an FISLP loan and upon the assurances and the information provided by the student to establish his eligibility. The Commissioner, in effect, would insure such a lender against such certifications and assurances being false or inaccurate. However, lenders which purchased loan notes that were originated by a school (as specified in more detail in the proposed § 177.52(c)) would not be insured against false certifications made by the school in the making of the loan. Lenders in these two situations would be expected to pursue their legal remedies against the school. The proposed regulation thus encourages a lender to make a sound professional judgment regarding the practices of a school before purchasing loans originated by the school.

The proposed § 177.52 states that the Commissioner will take cognizance of legal defects affecting the initial validity or insurability of a loan and, subject to § 177.44(b), will deduct from the default claim amounts attributable to such defects. This provision is intended primarily to cover intentional misrepresentations, fraud, forgery and other knowing or intentional acts undertaken in order to obtain Federal insurance for a loan which would not be eligible for such insurance. In addition to such legal defects as these, there are a number of other requirements imposed by the authorizing legislation or the regulations for the FISL Program which could give rise to defects impairing the insurability of a loan. An example of such a defect would be the lender obtaining an endorsement in contravention of section 427(a)(2) of the Act (20 U.S.C. 1077(a)(2)). Since such an endorsement would, under the terms of section 427, render the loan uninsurable, the Commissioner could not reimburse a lender on a default claim filed for a loan bearing such an endorsement. Defects such as this one may, however, be remedied, with the Commissioner's approval, if he determines that no one has been adversely affected by the defect and that it can be remedied on a timely basis.

Thus, if a lender discovers such an unauthorized endorsement and, with the agreement of the student, deletes the unauthorized endorsement from the student's promissory note prior to the student becoming delinquent in his payments and prior to the time any party (other than the lender) has relied upon the endorsement, the Commissioner will not deem the loan to have been void ab initio. Rather, the Commissioner will view the defect as having been harmless up to the time of its deletion and will ratify the insurability of the loan.

2. *Transfers and assignments of FISLP notes.* The statute (20 U.S.C. 1079(d)) and the regulations (45 CFR 177.49) provide for the transfer and assignment of FISLP notes, even though such notes are not negotiable instruments. However, in order to provide the student and the subsequent holder of the note with as much protection as possible, the regulations require that notice of such transfer or assignment be given to the student, and to the Office of Education, if the rights or responsibilities regarding any payments on such loan are affected by the transfer or assignment. (See 45 CFR 177.49(b).) The proposed amendments set forth in this Notice attempt to clarify what statements must be included in such notices of transfer and to establish the legal consequences, as they relate to default claims, of a failure to comply with the notice requirement.

It should be noted that the regulation does not necessarily require the assignee of the loan to send the notice to the student; rather it would permit the notice to be sent by either the assignor or the assignee. However, if the assignee relies on the assignor to send the notice, the assignee would bear the risk that such notice was not sent. Thus, if proper notice has not been given to the student borrower, and the student has made payments to the assignor of the note which have not been passed on to the assignee or otherwise taken into consideration in computing the amount of the unpaid balance submitted on a default claim, the Commissioner would deduct the amount of such payments from the amount of the default claim which he would pay to the assignee.

Another specific situation concerning the transfer of FISL notes that is covered by the proposed amendment occurs when the lender has obtained from the student borrower a written statement authorizing the educational institution to pay any refunds which become due to the student directly to the lender. This issue in discussed in detail below, under the next heading.

3. *Treatment of unpaid refunds.* This issue arises most often in cases in which the original lender was an educational institution, although it can arise in cases where a non-school lender has obtained an authorization to have the refund paid directly to it, rather than to the student.

The proposed amendments specify that, under certain circumstances, a refund which has become due but has not been paid will be treated as a payment by the student on the loan and that, under other circumstances, the lenders and assignees of loans will have some responsibility to attempt collection of such refunds, but as to such lenders and assignees, such refunds will not otherwise be treated as payments by the student.

An unpaid refund would be treated as a payment by the student, and would be deducted from a default claim (if it has not already been taken into consideration in determining the amount of the unpaid balance), whenever the educational institution which owes the funds to the student is the original lender and has filed the default claim. An unpaid refund would be treated, in the same manner, as a payment by the student in any case in which the loan was made by the educational institution which owes the refund to the student and was transferred to another eligible lender after the refund became due. For this purpose, the date the refund became "due" is the date on which the student's entitlement first became established (by withdrawal, by notification to the school, or by failure to attend class or submit lessons), rather than the date within which payment of the refund must be made. Thus, the assignee of the loan would bear responsibility for pursuing its own remedies against the school. This should encourage a lender which is contemplating purchasing a loan from a school lender to inquire about the status of the student or to obtain an assurance from the institution protecting it against the risk of a refund having become into existence prior to the transfer.

The responsibilities of lenders with respect to unpaid refunds in other situations would be dependent on whether the original lender had been an educational institution and, if so, whether the loan had been transferred from the original lender to another eligible holder of the loan.

If the original lender was not an educational institution, the holder of the loan at the time of the student's default would be responsible for making a diligent effort to collect the refund from the school. If the student had previously signed an authorization to have the school pay the refund directly to the lender, this would mean that any assignee of the loan would be responsible for obtaining an assignment of the authorization and seeking to collect on it from the school. If the student had not signed such an authorization prior to becoming delinquent on the loan, the diligence required of the holder of the loan would include a diligent effort to obtain an assignment from the student of his right to the refund and, if successful, a diligent effort to collect the refund from the school. A lender which exercised such diligence, but was nonetheless unable to collect the refund, would be reimbursed by the Commissioner for the full unpaid balance of the loan. The Commissioner, under section 430(d) of the Act (20 U.S.C. 1080(b)), is subrogated to the rights of a lender to whom he has paid a default claim and he would then exercise these rights to seek collection of the refund. If, however, a lender failed to exercise the diligence called for in this regard, the Commissioner would deduct from the default claim any amounts included therein which represented the refund which was due. In that event, the lender would be expected to pursue whatever remedies it might have against the student, the school or a prior holder of the loan.

If the original lender was an educational institution, and the loan had not been transferred to another lender (or, if transferred, has been repurchased by the original lender), an unpaid refund due from such institution would, as noted above, be considered a payment by the student and would be deducted from the default claim filed by such institution.

If the original lender was an educational institution and the loan has been transferred, so that another lender is holding the loan at the time of the student's default, an unpaid refund which became due prior to the transfer would, as noted above, be treated as a payment by the student and deducted from the claim filed by the holder. In addition, any payments which the student made to the school after the transfer which the subsequent holder authorized to be made or knowingly permitted to be made would be deducted from the holder's default claim, even if the school has not transmitted such payments to the holder. In this instance, the holder would be expected to pursue any remedies it had against the school. (Similarly, as discussed above, if the student had not been given proper notice of the transfer, or if such notice were given belatedly, any payments made to the school by the student prior to or in the absence of such notice, would be deducted from the holder's default claim and the holder would be expected to pursue its remedies against the school.) With respect to unpaid refunds which become due after the transfer, the holder would be required to exercise the same diligence in attempting to collect the refund from the school that is required of non-school lenders generally (see discussion above). Such diligence includes obtaining an assignment of any authorization which the student has signed to have his refund paid to the lender or, if no such authorization had been signed previously by the student, a diligent effort to obtain from the student an assignment of his own right to the payment of the refund. As discussed above, if the holder exercised such diligence but was not able to collect the refund from the school, it would be reimbursed on a default claim for the full amount of the unpaid balance of the loan and the Commissioner would assume responsibility or collecting the refund from the school.

4. *Consequences of a school terminating its teaching activities.* If a loan has been made by an educational institution and if the institution for any reason has terminated its teaching activities during the academic period for which the loan was made, with the result that the student is unable to obtain the academic services for which he enrolled, the Commissioner will not reimburse the institution, or any subsequent holder of the loan, for the full amount of the unpaid balance of the loan. Since the loan was made solely and specifically to enable the student to enroll in school, the school's termination of its teaching activities would result in a failure of consideration on the student's enrollment agreement with the school, thereby giving rise to a defense which is good on the loan not only against the school, but also against a subsequent holder of the loan. A lender purchasing loans which have been made by a school lender must, therefore, bear responsibility for making a reasonable, professional judgment that the institution has the resources and administrative capability to provide the services for which the student obtained the loan.

Should this situation arise, the institution, or the subsequent holder of the loan upon learning of the school's closing, would be required to submit a "default" claim promptly to the Commissioner. The holder of the loan would be required not to make any attempt to collect payments from the student and not to hold the loan during the normal grace period available to the student before he becomes obligated to begin payments. The holder of the loan would be reimbursed on its default claim on a pro rata basis for the services which the student received prior to the school's termination. That is to say, the amount which the holder would be reimbursed would bear the same ratio to the total amount of the student's loan as the amount of the services provided to the student would bear to the total amount of services which would have been provided to him had the school not closed.

Under these circumstances, the Commissioner would be subrogated to any rights which the holder of the note might have had, under applicable law, to receive payments from the student. The Commissioner will determine whether the student has any obligation, based on the facts and the applicable law, to make repayment on the loan. If it is determined that the student does have such obligation, the Commissioner will, after the expiration of the grace period, seek to collect such payments.

5. *Lenders having special relationships with schools.* It is apparent that there are circumstances in which a lender, although not an educational institution, could have established a relationship with an educational institution which might result in the lender not exercising the independent judgment and responsibility in making loans which would otherwise be expected of a non-school lender. Such circumstances include cases in which the lender and the institution have mutual financial interests and cases in which the lender has delegated its normal loan-making activities to the school.

The purposes of the program, particularly the interests of the students and the Federal Government appear to be best served in such circumstances if the lenders are required to assume responsibilities or bear risks beyond those of other non-school lenders.

Section 177.52(c) of the proposed amendments would define certain relationships between a lender and a school which would result in the loans made by the lender being treated as if they were made by a school and transferred to the lender. Thus, lenders with such relationships, unlike other non-school lenders, would bear the risk that a refund had become due prior to the disbursement of the loan, would bear the risk that payments had been made to the school by the student in the absence of adequate information about his repayment responsibilities, would have to make a diligent effort to collect an unpaid refund from the school, and would bear some risk in the case the institution terminated its teaching activities prior to the conclusion of the academic period for which a loan was made.

The relationships giving rise to such additional responsibilities would be (i) a school owning a majority of the voting stock of the lender; (ii) the lender having common ownership or management with one or more institutions and a majority of the loans made under the FISL Program by the lender are to the students at such institution; and (iii) the lender has delegated to a school substantially all of the loan-making functions and responsibilities which a non-school lender would ordinarily exercise.

Subdivision (iii) of this provision is not to be construed as authorizing or encouraging lenders to adopt the practice of delegating a lender's normal responsibilities to an educational institution. Rather, such a practice is discouraged and its use could raise serious questions regarding the lender's exercise of the requisite care and diligence in making loans. This provision is merely intended to establish that any lender which engages in such a practice will be held to assume additional risks.

Public comment. All interested parties are invited to submit written comments, suggestions or objections regarding these proposed amendments to the regulations to the Associate Commissioner, Office of Guaranteed Student Loans, Room 4051, Regional Office Building #3, Seventh and D Streets, SW., Washington, D.C. 20202. All relevant material received on or before April 24, 1975, will be considered. (Such response to this notice will be available for public inspection on Mondays through Fridays between 8:30 a.m. and 4:30 p.m.)

(Catalog of Federal Domestic Assistance No. 13.460: Guaranteed Student Loan Program)

Dated: March 3, 1975.

T. H. BELL,
U.S. Commissioner of Education.

Approved: March 18, 1975.

CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.

Part 177 of Title 45 of the Code of Federal Regulations is amended as follows:

§ 177.42 [Amended]

1. Section 177.42 is amended by deleting paragraph (d) and by redesignating paragraph (e) as paragraph (d).

2. Section 177.44 is amended by designating the undesignated paragraph as paragraph (a) and by adding a new paragraph (b) to read as follows:

§ 177.44 Eligibility for insured loans.

*   *   *   *   *

(b) In making a loan under this part, a lender which is not an institution of higher education or a vocational school, acting in good faith and in the absence of information to the contrary, may rely upon the certifications provided by an institution and upon the assurances and other information provided by a student pursuant to paragraph (a) of this section. A lender which, by transfer or assignment pursuant to § 177.49 of this part, obtains possession of a loan which has been made by an educational institution may, acting in good faith and in the absence of information to the contrary, rely upon the assurances and information provided by a student to such institution pursuant to paragraph (a) of this section, but such transferee or assignee shall not be entitled to rely upon the certifications provided by an educational institution pursuant to paragraph (a) of this section in the making of the loan. In making a loan under this part, a lender which is not an educational institution, but for which the conditions set forth in paragraph (c) of § 177.52 exist, acting in good faith and in the absence of information to the contrary, may rely upon the assurances and information provided by a student pursuant to paragraph (a) of this section, but shall not be entitled to rely upon the certifications of the educational institution provided thereunder.

3. Paragraph 177.49(b) is revised, to read as follows:

§ 177.49 Transfer of insured loan.

*   *   *   *   *

(b) The Commissioner shall be notified of any assignment of a note insured under this subpart if the right to receive interest payments has also been assigned. The borrower shall be notified of the assignment of any note insured under this subpart if the assignment results in his being required to make installment payments or direct other matters connected with the loan to another party. Such notice to the borrower shall contain a clear statement of all of the borrower's rights and obligations, both as to the assignor and the assignee, including a statement regarding the consequences of any payments made to the assignor, or any prior holder of the loan, subsequent to receipt of the notice and, if applicable, the effect of the assignment on any authorization previously signed by the borrower with respect to payment of refunds due under § 177.52 of this part.

4. A new § 177.53 is added, to read as follows:

§ 177.53 Determination of amount of loss on default claims.

The amount of loss to be paid on claims filed pursuant to § 177.48, for loans for which the application for insurance commitment was received by the U.S. Office of Education prior to July 1, 1972 or between August 19, 1972 and February 28, 1973 (or, with respect to claims based on the borrower's death or total and permanent disability, for loans made prior to December 15, 1968), shall be equal to the unpaid balance of the principal amount of such loan other than any interest or any other charges which may have been added to, and become part of, the principal amount of the loan. For loans for which such applications were received between July 1 and August 18, 1972 or after February 28, 1973 (and, with respect to claims based on the borrower's death or total and permanent disability, for loans made on or after December 15, 1968), the amount of the loss to be paid on claims filed pursuant to § 177.48 shall be equal to the unpaid balance of the principal and interest. In determining what amount of such balance is unpaid, the Commissioner shall take cognizance of legal defects affecting the initial validity or insurability of the loan which arise under the Act, the regulations set forth in this part, or applicable State law. Subject to the provisions of § 177.44(b) of this part, the Commissioner shall deduct from the claim any amounts included therein which are attributable to legal defects deriving from fraud, forgery or intentional misrepresentations on the part of the borrower, the educational institution or the lender or deriving from non-compliance with the statutory conditions and elements set forth in sections 428 and 427 of the Act. In determining whether deductions should be made which are attributable to other defects, the Commissioner shall consider whether there is any evidence of an intention to mislead or defraud and whether the lender, in making the loan, failed to exercise care and diligence commensurate with prudent business practices. In addition, the Commissioner will determine the amount of the unpaid balance in accordance with the following rules:

(a) *Loans made by lenders which are not educational institutions.* If the loan for which a claim has been filed was originally made by on eligible lender which was not an institution of higher education or a vocational school, the unpaid balance shall be the amount of the loan, minus any payments which have been properly made to the holder of the loan by the borrower or on the borrower's behalf. If, however, the lender has obtained the borrower's authorization to have the educational institution in which the borrower is enrolled pay directly to the lender any refund from the institution to which the borrower becomes entitled, the lender must make a diligent effort to collect such refund prior to filing the claim; if the lender fails to make such efforts, the Commissioner will deduct from the claim any amount included therein which is attributable to such refund. If the claim has been filed by an eligible lender which did not make the loan, but has obtained it by transfer or assignment, the transferee or assignee shall not be entitled to any payment under this section greater than that to which the transferor or assignor would be entitled under this section. In particular, the Commissioner shall deduct from the claim any amounts included therein which are attributable to payments made by the borrower to a prior holder of the loan prior to, or in the absence of, proper notice of the transfer or assignment to the borrower in accordance with § 177.49(b) of this part. If the loan for which a claim has been filed was made by an eligible lender which is not an educational institution, but for which the conditions set forth in paragraph (c) of this section exist, the Commissioner will determine the amount of the loss on such claim in accordance with the rules set forth in paragraph (b) (2) of this section.

(b) *Loans made by educational institutions.* (1) If the loan for which a claim has been filed was originally made by an eligible institution of higher education or vocational school, and the claim has been filed by such lender, the Commissioner shall deduct from the claim any amounts included therein which are attributable to either (i) a refund which the institution is obligated to make pursuant to § 177.63 of this part; or (ii) any portion of the program of study which the student was unable to complete due to the institutions' termination of its teaching activities during the period of time for which the student obtained a loan under this part. If the situation described in paragraph (b) (1) (ii) of this section arises, the lender shall not make any effort to collect on the loan from the student, shall not hold the loan during the grace period provided for in § 177.46(d) of this part, and shall promptly file a claim pursuant to § 177.48. The Commissioner shall reimburse the lender in an amount which bears the same ratio to the total amount of the loan as the amount of the educational services which the student received before the institution terminated its teaching activities bears to the total services which he would have received, during the period for which the loan was obtained, had the institution not terminated its teaching activities. The Commissioner will then determine whether, after the grace period has expired, the student is obligated to make any repayments on the loan and, if so, in what amount.

(2) If the loan for which a claim has been filed was originally made by an eligible institution of higher education or vocational school, but the claim has been filed by another eligible lender which obtained the note by transfer or assignment, the Commissioner shall deduct from the claim any amounts included therein which are attributable to (i) a refund which the institution became obligated to make, pursuant to § 177.63 of this part, prior to the transfer or assignment; or (ii) any payments made to the institution (or any other prior holder of the loan) which the lender filing the claim authorized to be made or knowingly permitted to be made, or which were made prior to or in the absence of a proper notice of the transfer or assignment having been sent to the student in accordance with § 177.49(b) of this part; or (iii) any portion of the program of study which the student was unable to complete due to the institution's termination of its teaching activities during the period of time for which the student obtained a loan under this part. The Commissioner will not deduct from the claim an amount which would be attributable to a refund which the institution became obligated to make after the date of the transfer or assignment, if the lender, prior to filing the claim, has made a diligent effort to obtain an assignment from the student of the right to receive such refund and, if the lender received such assignment from the student, has made a diligent effort to collect such refund from the institution. If, however, the student, prior to the transfer or assignment of the loan by the institution, had signed an authorization for the institution to apply the refund to the unpaid balance of the loan, the transferee or assignee will be held responsible for obtaining an assignment of such authorization and for making a diligent effort, prior to filing a claim, to collect such refund from the institution; if the lender fails to make such effort, the Commissioner will deduct from the claim any amount included therein which is attributable to a refund which the institution is obligated to make. If a lender holding a loan that was made by an educational institution has knowledge that the institution has terminated its teaching activities during the period of time for which the student obtained a loan under this part, the lender shall not make any effort to collect on the loan from the student, shall not hold the loan during the grace period provided for in § 177.46(d) of this part, and shall promptly file a claim pursuant to § 177.48; the lender will be reimbursed an amount which bears the same ratio to the total amount of the loan as the amount of the educational services which the student received before the institution terminated its teaching activities bears to the total services which he would have received, during the period for which the loan was obtained, had the institution not terminated its teaching activities. The Commissioner will then determine whether, after the grace period has expired, the student is obligated to make any repayments on the loan, and, if so, in what amount.

(c) *Loans made by lenders having special relationships with educational institutions.* For purposes of this section, a loan which has been made by a lender which is not an educational institution shall be treated, in accordance with paragraph (b) (2) of this section, as if it were a loan made by an educational institution and transferred to the lender on the date of the initial disbursement of the loan, in any case in which the lender: (i) has a majority of its voting stock held by an educational institution; or (ii) has common ownership or management with one or more educational institutions and more than 50 percent of the loans made under this part by the lender have been made to students at such institution; or (iii) has delegated to an educational institution substantially all of the functions and responsibilities normally performed by a lender prior to making a loan, such as interviewing the applicant for the loan, explaining the applicant's responsibilities under the loan, obtaining completion of necessary forms, obtaining necessary documentation, and (subject to § 177.46 (b) of this part) verifying that the student is eligible for the loan.

(20 U.S.C. 1080, 1082(a)(1))

[FR Doc.75-7968 Filed 3-24-75;8:45 am]

Mr. Cooke. As far as a complete regulation, I would hope we would have that in the very near future.

Senator Pell. Thank you very much.

The Senator from Vermont.

Senator Stafford. Thank you, Mr. Chairman.

I am sorry I arrived late for this part of the hearings, due to other commitments I had to keep this morning.

Under the circumstances, I shall examine Mr. Bell's statement very carefully, that is in the record, but I have no questions.

Senator Pell. It is an excellent statement, too, with some very good suggestions, each one of which will be considered very seriously by the committee.

I would say, on the staff level, we might be able to work out some of these problems I mentioned here.

Thank you very much, Commissioner Bell.

Mr. Bell. Thank you.

[The prepared statement of Mr. Bell and other information supplied for the record follows:]

FOR RELEASE UPON DELIVERY

Statement by
Honorable T. H. Bell
U.S. Commissioner of Education
Department of Health, Education, and Welfare
Before the
Subcommittee on Education
Committee on Labor and Public Welfare
United States Senate
Wednesday, March 5, 1975
10:00 a.m.

Commissioner Bell is accompanied by:

Charles M. Cooke, Jr., Deputy Assistant Secretary for Legislation (Education), DHEW

Edward T. York, Jr., Deputy Commissioner, Office of Management, OE

Kenneth A. Kohl, Associate Commissioner, Office of Guaranteed Student Loans, Office of Management, OE

Mr. Chairman and Members of the Subcommittee:

I am happy to appear before you today to discuss the Administration's legislative proposals "To amend the Higher Education Act of 1965 to decrease the amount of defults under the Guaranteed Student Loan Program, to amend the Bankruptcy Act to limit the dischargeability in bankruptcy of educational debts, and for other purposes."

Before discussing our new proposed legislation, let me bring you up to date on certain matters. In September, I testified before this subcommittee with the major emphasis on the default problem and the administrative actions which were being taken and those which were contemplated in the future. We also provided you with statistical data on the federally insured phase of the program, and emphasized that this should not be confused with data relating to loans guaranteed by State and private nonprofit agencies. And finally, we indicated that resolution of the operational difficulties incurred in the Guaranteed Student Loan Program were dependent upon reliable information, adequate resources, and proper regulations.

In connection with regulations, we should report several developments. On October 17, we published in the Federal Register proposed regulations which, for the first time, set forth requirements and standards with which educational institutions would have to comply in order to participate in the Guaranteed Student Loan Program. These same regulations also set forth detailed due process procedures for the limitation, suspension or termination of any postsecondary institution or federally insured lender which do not comply with the regulations. Public hearings were held in Washington, D.C., Chicago and San Francisco on the proposed regulations. As a result of the comments received, both at the hearings and in writing, numerous changes were made and final regulations were published in the Federal Register on February 20. We are convinced that these new regulations will do much to reduce the default problem by providing (1) that students receive better information about schools and colleges before enrolling, (2) that each participating educational institution maintains a fair and equitable refund policy and that refunds are paid on a timely basis, (3) that institutions providing vocational, trade or career programs utilize appropriate admissions criteria and provide students with relevant employment information, (4) that correspondence schools provide students with a schedule setting forth what is required in submitting lessons, and also further clarify when withdrawal occurs and repayment commences for such students, and (5) that each educational institution adopt certain procedures and maintain records which will be subject to inspection and audit by the Office of Education in order to determine that an institution is protecting the interests of students and the Federal Government. The regulations also establish new disbursement procedures, clarify some existing definitions and add other new provisions which should improve the administration of the Program.

On February 24, we published a notice in the Federal Register providing an interpretation as to the amount of loss that would be paid by the Federal Government on claims originated by school lenders. The problem has several major aspects, including unpaid refunds and the closing of an educational institution. In the very near future, a proposed regulation will be published in the Federal Register setting forth detailed rules and procedures regarding default claims. This regulation is now in the final clearance stages.

Thus far, we have described both the administrative and regulatory steps taken to attack the default problem. But legislative changes are also needed, and for the last several months we have been studying the problem in order to determine those changes to the enabling legislation that could further reduce the default rate. We would like to clarify at this time the major provisions of the Administration's proposal.

Defense of Infancy Under present law, students may borrow under the federally insured phase of the program without security or endorsement, even though under applicable State law they may be minors. Upon completing their education, some of these students have disavowed their debts on the grounds that their loan was invalid due to their age at the time the note was executed. Most State guarantee agencies do not have this problem because their State laws rule out the defense of infancy. While this is not a major problem, it is a bothersome one. We propose in section 2 of the bill that the Federal program take a similar approach.

Minimum repayment period Present law requires lenders to provide borrowers with a repayment period of not less than five years (and a maximum of ten years) unless to do so would result in annual payments of principal and interest of less than $360, in which case, a shorter term is required. Some students wish to repay their loans in less than five years and, recognizing that more interest is payable over the longer term, have refused to sign notes for the minimum five year term. Section 3 of the proposed legislation would provide that the student may waive the minimum five-year repayment period by requesting that the note provide for repayment over a shorter term. This provision would apply to both State and Federal programs. At any time before total repayment, the borrower would be able to have the shortened period extended to a total of five years. In order to prevent any coercion by the lender as a condition for giving a loan, such a waiver may only be requested after the student graduates or withdraws from school.

Minimum payment for married borrowers. Present law requires each borrower to repay his loans at an annual rate of not less than $360 (principal and interest). If two students marry, both having loans outstanding, each is required to repay not less than $360 each year. In some cases, this presents a hardship, especially if there are young children and one spouse is unable to work. It is proposed in section 4 of the bill that, in the case of a husband and wife, both of whom have student loans outstanding, the combined minimum annual payment on those loans would be the same as for a single person--$360 a year, rather than $720 a year. This provision would apply to both the State and Federal programs.

Encourage lenders to make multiple disbursements. Many defaults are caused by student dropouts. Because most lenders disburse the loan in a single installment before the academic year begins (to reduce administrative costs), the student dropout has the entire loan to repay, even though he did not complete the academic period for which the loan was obtained. However, if we could encourage lenders to make multiple disbursements, only a portion of the loan would be disbursed to students who drop out early in the academic year, thus substantially reducing the amount of claims paid by the government if such students default. For example, if the $1,500 loan were disbursed in 3 equal installments over the academic year, only $500 would have been disbursed to a student who withdrew in the first quarter of a 3 quarter academic year. If this student subsequently defaulted, the principal amount of the claim would be $500 rather than $1,500 as is now usually the case.

Section 5 of the bill would authorize certain lenders under both State and Federal programs to receive interest subsidy payments on the entire amount of the loan to a student for a given academic year, even though the lender disburses such loan in installments over the course of that year. By providing the interest subsidy on the entire loan, lenders would be encouraged to make multiple disbursements. Any lender desiring to receive such interest payments on the basis of multiple disbursements would be required to obtain approval from the Commissioner. It should be noted that the cost to the Federal Government would be the same as though the lender had made a single disbursement as almost all now do. We also propose that this provision be limited only to commercial lenders, as school and State agency lenders are not in the loan business to make a profit on the interest yield on student loan paper, and they would be required by our regulations published on February 20 to make such multiple disbursements. Because the result would be to increase commercial lender yield, such lenders should be more willing to make multiple disbursements.

Require educational institutions to provide student address and enrollment data. One of the problems in trying to determine student status or latest address is that certain State laws prohibit the schools from releasing this data without the written consent of the student. In many cases, defaults could be prevented or recoveries made on defaulted loans if schools were required to provide this information. Section 6 of the bill would require each eligible institution to establish policies and procedures to provide the latest known address and enrollment status of a student borrower to the Commissioner, a State or nonprofit private guarantee agency which has insured the loan, or the lender.

Ineligibility of defaulting student for further student assistance. There are students, who, after defaulting on a guaranteed student loan, return at a later date to another or the same educational institution. Some of these students attempt to borrow again under the Guaranteed Student Loan Program and, although there is no data available, could very well apply for and receive a Basic Educational Opportunity Grant. As a general rule, we do not believe that such students should be eligible for further financial assistance under these programs until they have taken care of their loan obligation. Section 7 of the bill provides that any student who defaults on a guaranteed student loan would thereafter be ineligible to receive a Basic Grant or another guaranteed student loan unless he subsequently repaid the loan in full or made satisfactory arrangements for repayment. The Commissioner is required under this provision to give the student an opportunity to show cause why such a determination should not be made and the

Commissioner may decline to make such a determinaion if he finds that the circumstances leading to the prior default of the student were beyond his control. This provision applies both to the Federal and State programs.

Exclude proprietary schools as eligible lenders. In our assessment of the default problem, it has become clear that certain types of lenders have contributed to the problem in a manner that is disproportionate to their volume of loans as compared with other categories of lending institutions. Commercial banks have the best record; educational institutions who are lenders, the worst. The high default and delinquency rates of school and college lenders have been under review for the last few years, and major efforts have been under way to screen their initial participation and provide for an annual review of their lending activities. While this has helped to some extent, problems still persist. For example, we have examined carefully the data derived from our annual "call report" which all lenders are required to submit. This report provides information on loans outstanding, loans in repayment status, and delinquency data on loans in repayment. Delinquency rates are calculated on all loans that are 30 days or more delinquent.

At the end of FY 1973, the national delinquency rate, for all lenders, was 11.73 percent. This applies to both the Federal and the State programs. By the end of FY 1974, this had risen to 13.1 percent, based on preliminary reports out of our system. As a result of our efforts to more closely monitor educational lenders, the delinquency rate for college and university lenders declined from 36.3 percent at the end of FY 73 to 30.8 percent at the end of FY 74. However, with proprietary school lenders, where most of our major efforts were directed, their delinquency rate increased from 38.5 percent at the end of FY 73 to 46.3 percent at the end of FY 74. This figure requires clarification because the call report indicates only loans currently held by the school lender. Many of the proprietary schools have been able to sell their paper to other lenders. We suspect that, if the data were available, the delinquency rate of proprietary school lender's originated paper would be even worse. Because there has been so much movement of proprietary school originated paper, we are unable to have good data on either delinquency or default rates.

We are now convinced that the best solution would be to amend the statutory definition of "eligible lender" to exclude proprietary institutions from that term. Section 8 would make such amendment. We must emphasize that we are in no way suggesting that proprietary school students be excluded from being able to borrow under the program. We feel that prudent administration of the Guaranteed Student Loan Program should recommend that such schools not be permitted to take part as lending institutions. Thus, we would propose that such institutions be permitted to continue to be lenders until June 30, 1978, with respect to those students to whom they have already made loans and who need additional loans to continue or complete their educational programs.

Dischargeability in bankruptcy of educational loans. There has been a growth in student loan bankruptcies from 1,342 totalling $1.6 million in FY 1972 to 2,914 totalling $3.8 million in FY 1974. There has been much criticism in the press over the number of students who borrow under the Guaranteed Student Loan Program and then fail to honor their obligation to repay by taking personal bankruptcy. While as a percentage of total loans or total defaults, bankruptcies are a relatively small part of the problem, in absolute numbers the growth has been significant. A Congressionally appointed commission considering changes to the bankruptcy laws has recommended to the Congress that education loans be exempt from bankruptcy during the in-school period plus the first five years of repayment. As it may be a long time before the bankruptcy laws are revised, we are proposing a separate amendment to accomplish this purpose. Section 9 of the bill would amend section 17 of the Bankruptcy Act to provide that educational debts would be exempt during the in-school period and the first five years of repayment. Enactment of this provision will have an immediate effect on reducing the number of bankruptcies in the student loan program. While some students may still default on their loans, such losses may still be recoverable, whereas presently they are not, if the student's debt has been discharged in bankruptcy.

Mr. Chairman, that completes our summary of this legislative proposal. We shall be pleased to answer any questions.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

FEB 27 1975

Honorable Nelson A. Rockefeller
President of the Senate
Washington, D. C. 20510

Dear Mr. President:

Enclosed for the consideration of the Congress is a draft bill, "To amend the Higher Education Act of 1965 to decrease the amount of defaults under the guaranteed student loan program, to amend the Bankruptcy Act to limit the dischargeability in bankruptcy of educational debts, and for other purposes."

The purpose of the enclosed draft bill is to amend the guaranteed student loan program under title IV of the Higher Education Act in a number of ways that would, in our opinion, reduce the default rate under that program. As you are aware, the number of defaults has been growing at an alarming rate over the last few years.

The most important of our proposals are (1) an incentive offered to lenders to encourage the multiple disbursement of loans over the course of a school year, (2) a provision to eliminate proprietary schools as eligible lenders, and (3) an amendment to the Bankruptcy Act to make student loans nondischargeable in bankruptcy during the five-year period after the first installment thereon becomes due. The draft bill also contains a proposal to make any student who defaults on a guaranteed student loan ineligible to receive a basic educational opportunity grant or any further guaranteed loans unless the loan is repaid or other special circumstances exist.

We realize that programs authorized under the Higher Education Act will be considered for extension during this Congress. We feel, however, that the growing default rate is a matter of such urgency that separate and early consideration of these and any other proposals designed to reduce that rate is essential.

We therefore urge the prompt and favorable consideration of this draft bill. A section-by-section summary of the draft bill is enclosed for your convenience.

We are advised by the Office of Management and Budget that enactment of this draft bill would be in accord with the program of the President.

Sincerely,

Stephen Kurzman

Acting Secretary

Enclosures

Summary of the Student Loan Amendments of 1975

Section 2 of the draft bill would amend section 427(b) of the Higher Education Act of 1965 by adding a new subsection providing that the defense of infancy would not be available with respect to Federally insured student loans.

Section 3 would provide that in both the State and Federal student loan insurance programs, the student may waive the minimum five-year repayment period by requesting that the note provide for repayment over a shorter period. At any time before total repayment, the borrower would be able to have the shortened period of repayment extended to a total of five years.

Section 4 would provide that in the case of a husband and wife, both of whom have student loans outstanding, the combined minimum annual payment on those loans would be the same as for a single person--$360 per year, rather than $720 per year. This provision would apply to both the State and Federal student loan insurance programs.

Section 5 would authorize certain lenders to receive interest subsidy payments on the entire amount of a loan to a student for a given academic year, even though the lender disburses such loan in installments over the course of that year. By providing the interest subsidy on the entire loan, lenders would be encouraged to make multiple disbursements. In the event that the student left school before the end of the academic year and before all of the loan had been disbursed, the amount of any potential default would thereby be reduced. Any lender desiring to receive such interest payments on the basis of multiple disbursements would be required to approved by the Comissioner.

Section 6 would require each eligible institution to establish policies and procedures to provide the latest known address and enrollment status of a student borrower to the Commissioner, a State or nonprofit private institution or organization which has insured his loan, or the lender.

Section 7 would provide that any student who defaults on a guaranteed student loan would thereafter be ineligible to receive a basic grant or another guaranteed student loan unless he subsequently repaid the loan in full or made satisfactory arrangements for repayment.

Section 8 of the bill would modify the definition of "eligible lender" to exclude proprietary institutions from that term. However, such institutions could continue to be lenders until June 30, 1978, with respect to those students to whom they have already made loans and who need additional loans to continue or complete their educational program.

Section 9 of the draft bill would amend section 17 of the Bankruptcy Act to provide that educational debts would be exempt from discharge in bankruptcy during the in-school period and the first five years of repayment.

A BILL

To amend the Higher Education Act of 1965 to decrease the amount of defaults under the guaranteed student loan program, to amend the Bankruptcy Act to limit the dischargeability in bankruptcy of educational debts, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Student Loan Amendments of 1975".

ELIMINATION OF THE DEFENSE OF INFANCY WITH RESPECT TO FEDERALLY INSURED STUDENT LOANS

Sec. 2. (a) Section 427(a)(2)(A) of the Higher Education Act of 1965 is amended by striking out "except that if the borrower is a minor and such note or other written agreement executed by him would not, under the applicable law, create a binding obligation, endorsement may be required,".

(b) Section 427 of such Act of 1965 is further amended by adding at the end thereof the following new subsection:

"(d) No borrower who is otherwise eligible for a loan insured by the Commissioner under this part shall be under legal disability, by reason of minority, to execute a note or other written agreement for that purpose, and no such note or other written agreement may be disavowed because of the minority of such borrower.".

MINIMUM REPAYMENT PERIOD

Sec. 3. (a)(1) Section 427(a)(2)(B) of such Act is amended by inserting "or unless the student, during the 9- to 12-month period preceding the start of the repayment period, specifically requests that repayment be made over a shorter period" immediately following "repaid" in the second parenthetical.

(2) Such section is further amended by striking out "and" after clause (ii) and by inserting after clause (iii) "and (iv) that in the event a student has requested and obtained a repayment period of less than five years, he may at any time prior to the total repayment of the loan have the repayment period extended so that the total repayment period is not less than five years,".

(b)(1) Section 428(b)(1)(D) of such Act is amended by inserting "(unless the student, during the 9- to 12-month period preceding the start of the repayment period, specifically requests that repayment be made over a shorter period)" immediately following "not less than five years".

(2) Such section is further amended by inserting "(i)" after "except that" and by inserting before the semicolon ", and (ii) if a student has requested and obtained a repayment period of less than five years, he may at any time prior to the total repayment of the loan have the repayment period extended so that the total repayment period is not less than five years.".

MINIMUM ANNUAL PAYMENT FOR MARRIED COUPLES

Sec. 4. (a) Section 427(c) of such Act is amended by inserting immediately before the period at the end thereof a comma and "except that in the case of a husband and wife, both of whom have such loans outstanding, the total of the combined payments for such a couple during any year shall not be less than $360 or the balance of all such loans, whichever is less".

(b) Section 428(b)(1)(K) of such Act is amended by inserting immediately before the semicolon ", except that in the case of a husband and wife, both of whom have such loans outstanding, the total of the combined payments for such a couple during any year shall not be less than $360 or the balance of all such loans, whichever is less".

INTEREST SUBSIDY ON MULTIPLE DISBURSEMENTS

Sec. 5. (a) The first sentence of section 428(a)(3) of such Act is amended to read as follows:

"(3)(A) Except as provided in subparagraph (C) of this paragraph, the portion of the interest on a loan which a student is entitled to have paid on his behalf and for his account to the holder of the loan pursuant to paragraph (1) of this subsection shall be equal to the total amount of the interest on the unpaid principal amount of the loan which accrues prior to the beginning of the repayment period of the loan, or which accrues during a period in which principal need not be paid (whether or not such principal is in fact paid) by reason of a provision described in section 427(a)(2)(C) or section 428(b)(1)(L); but except as provided in subparagraph (C) of this paragraph, such portion of the interest on a loan shall not exceed, for any period, the amount of the interest on that loan which is payable by the student after taking into consideration the amount of any interest on that loan which the student is entitled to have paid on his behalf for that period under any State or private loan insurance program.".

(b) Section 428(a)(3) of such Act is amended by adding the following new subparagraph at the end thereof:

"(C)(i) In the case of any eligible lender (other than an eligible institution or an agency or instrumentality of a State), which is approved by the Commissioner pursuant to division (ii) of this subparagraph for the purpose of authorizing multiple disbursements and which enters into a binding agreement with a student to make a loan (I) for which the student is entitled to have a portion of the interest paid on his behalf under this section and (II) the proceeds of which loan are to be paid to the student in multiple disbursements over the period of enrollment for which the loan is made, but not to exceed 12 months, the amount of the interest payment which such lender may be paid under this section shall be determined as if the entire amount to be made available for that period of enrollment had been disbursed on the date on which the first installment thereof was disbursed: Provided, That this subparagraph shall apply only in the case of loans paid in installments, in accordance with regulations of the Commissioner, based on the need of the student for the proceeds of such loan over the course of the academic year.".

"(ii) The Commissioner may approve an eligible lender for the purposes of this subparagraph if he determines--

"(I) that such lender is making or will be making a substantial volume of loans on which an interest subsidy is payable under this section, and

"(II) that such lender has sufficient experience and administrative capability in processing such loans to enable the lender to make such multiple disbursements in accordance with regulations issued by the Commissioner under this subparagraph.

AVAILABILITY OF STUDENT ADDRESS AND ENROLLMENT DATA

Sec. 6. Section 438(a) of such Act is amended by redesignating paragraph (3) as paragraph (4) and inserting the following new paragraph after paragraph (2):

"(3) the establishment by each eligible institution of policies and procedures under which the latest known address and enrollment status of a student who has received a loan insured under this part or insured by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b) are made available, upon request, to the Commissioner, to the State or nonprofit private institution or organization which has insured such loan, to the lender who made such loan, or to the holder of such loan;".

INELIGIBILITY OF DEFAULTING STUDENT FOR FURTHER STUDENT ASSISTANCE

Sec. 7. Section 430 of such Act is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) No student--

"(1) who has been determined by the Commissioner to have defaulted on any student loan made or insured by the Commissioner under this title or insured by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b), and

"(2) who has not subsequent to such default repaid the entire amount owed on such loan or made arrangements satisfactory to the holder of such loan to resume payments thereon

shall be eligible to receive (A) a subsequent loan insured by the Commissioner under this title or insured by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b) or (B) a basic educational opportunity grant under section 411 of this Act. The Commissioner shall not make any determination under this subsection until he has given the student affected by such determination notice and opportunity to show cause why such determination should not be made. The Commissioner may decline to make such a determination if he finds that the circumstances leading to the prior default of the student were beyond the control of such student.".

ELIMINATION OF PROPRIETARY INSTITUTIONS AS ELIGIBLE LENDERS

Sec. 8. Section 435(g) of such Act is amended (1) by inserting "which is a public or other nonprofit institution" immediately following "eligible institution", and (2) by inserting at the end thereof the following new sentence: "In the case of a student who, prior to June 30, 1975, has received a loan insured or guaranteed under this part from an eligible institution other than a public or nonprofit institution, the term also includes such an institution to the extent that it makes a loan to such a student prior to June 30, 1978, to enable him or her to continue or complete his or her educational program.".

DISCHARGEABILITY IN BANKRUPTCY OF EDUCATIONAL LOANS

Sec. 9. Subdivision a. of section 17 of the Bankruptcy Act (11 U.S.C. 35(a)) is amended by striking out "or" following clause (7), by striking out the period following clause (8) and inserting in lieu thereof a semicolon and "or", and by adding at the end of the subdivision the following new clause:

"(9) are debts arising out of loans for educational purposes made or insured by the Federal government, a State, or a nonprofit private institution or organization with which the Commissioner of Education has an agreement under section 428(b) of the Higher Education Act of 1965, the first payment of any installment of which was due on a date less than five years prior to the date of the petition.".

Senator PELL. The next witnesses are a panel representing the Consumer Bankers Association.

I hope they will discuss the whole question of the guaranteed student loan program, how they as bankers view it, and what they think will happen to the program in light of the high default rate, the 10 percent limitation of income, and also the new regulations that are proposed by HEW. Introduce yourselves, please.

STATEMENT OF ROBERT E. TOBEY, PRESIDENT, CONSUMER BANKERS ASSOCIATION AND FIRST VICE PRESIDENT OF THE NATIONAL BANK OF DETROIT; JAMES L. SMITH, SENIOR VICE PRESIDENT, SECURITY PACIFIC NATIONAL BANK, LOS ANGELES, CALIF.; E. S. AMAZEEN, JR., VICE PRESIDENT, FIRST NATIONAL BANK OF BOSTON; AND DREW TIDWELL, LEGISLATIVE REPRESENTATIVE, CONSUMER BANKERS ASSOCIATION, A PANEL

Mr. TOBEY. My name is Robert Tobey. I am president of the Consumer Bankers Association, first vice president of the National Bank of Detroit.

To my left is Mr. James Smith, senior vice president, Security Pacific National Bank, Los Angeles, Calif.; and to my right is E. S. Amazeen, Jr., vice president, First National Bank of Boston, who is chairman of our Legislative Committee; and to my far right is Drew Tidewell, who is the staff representative of the Consumer Bankers Association.

Senator PELL. If you would proceed.

Mr. TOBEY. We appreciate the opportunity, gentlemen, to visit with you this morning and to discuss what we believe are important aspects of the student loan program.

The Consumer Bankers Association's membership represents commercial banks holding in excess of 75 percent of the total outstanding in student loans. The problems experienced by banks and other lenders in the federally insured student loan programs are numerous. The most significant problem is in the matter of defaults. Defaults currently represent in excess of 20 percent of the total outstanding loans in repayment in many major banks and delinquent student loans have a similar ratio or higher. This compares to the national average of 5.4 percent for unsecured revolving consumer credit at December 31, 1974, as reported recently in a national survey.

The second most frequent complaint among participants in this program is the very complex operating procedures required by the present law and regulations. We are aware of the substantial increases in staffing that is planned by the Office of Education. However, the effective implementation of these plans could be 2 to 3 years from now. It is our contention that more immediate relief is necessary to maintain the present participation level of bank lenders. Most banks are involved today in measuring the profitability of all loan programs, some banks have made definite plans for limiting their investment in the program, and some banks have discontinued the program entirely in recent weeks. A notable example is the Bank of California with $28 million in outstandings, representing approximately one-sixth of the total outstandings in the State of California. The amount of time required for processing the proposed changes is going to be simply too long for many participants. More effective and immediate relief is necessary.

It is our recommendation that any legislative effort attempt to:

One: Grant authority to regional offices to establish supervision over loans for that area in order to provide a more immediate response to problems; Two: Directly support individual state loan programs;

Three: Identify specific standards of qualification for participating institutions; Four: Require participating schools to provide necessary information needed by the Office of Education for proceeding loans;

Five: Recognize that student loans are a special type of credit not comparable to other types of bank consumer loans.

This legislative effort should direct that regulations be timely and clear so that student applicants may understand the eligibility, income, and repayment requirements of the loan. Congressional action is necessary if this very desirable support of postsecondary education is to continue.

Since our notice of this hearing was short, we request the permission of the chairman to revise and extend our testimony in the record within the next 14 days.

Senator PELL. Certainly. I would be appreciative too, if the bankers in my own State, who are very much involved with these student loan programs, could be involved in this supplemental statement.

Now, what is your reaction to the elimination of the defense of infancy, do you think this is a good, a good idea, or a bad idea?

Mr. TOBEY. I think it is a necessary step. I listened carefully to the testimony previously given, and I concur.

However, in our own operation, I will speak now not as president of Consumer Bankers Association, but referring back to my banking operation in Michigan, we attempt in every instance where it is possible to secure the signature of one or more of the parents of the students that are minors, not only to lend credence to the legality of the contract. This helps us to get the support of the parent if the student defaults.

Senator PELL. That was not a requirement.

Mr. TOBEY. That is correct.

Senator PELL. Is it your experience that in every State there is one bank of last resort where a student can go and get a guaranteed student loan if all else fails?

Mr. TOBEY. That is not true in Michigan. I would like to ask these other gentlemen to perhaps comment on this area since they are more familiar with it. Mr. Smith?

Mr. SMITH. I, of course, am not certain of the situation in every State, but I believe it is true that there is some source of funds if the student will pursue it diligently. The assistance of his school financial aid officer can be very helpful in obtaining a loan.

Senator PELL. It was just said there was not such a case in Michigan.

Mr. TOBEY. What I meant was that the banks in Michigan have stepped up to their responsibility. We have not really found it necessary—at least not in our experience—where the students must search for a source of last resort for borrowing for the purpose of education.

Senator Pell. You do not require the family to have an account there, or the boy wear a necktie and have his hair brushed, et cetera?

Mr. Tobey. No. In our program, we operate through the United Student Aid Fund. Our delinquency and our default rates are far better—and why that is so I cannot answer at this point in time—but our experience has been far better than the average.

Senator Pell. I am struck by another factor. That is, small loans, when they are given out by banks, to buy a car or refrigerator, or something of that sort are handled differently from a guaranteed student loan.

Why do some banks have different persons assigned to giving those different loans, as a rule? I think this is true in all banks.

Mr. Amazeen. Mr. Chairman, a couple of answers pop through my mind here.

First of all, it is a different kind of credit from the point of view that we are not dealing with crediting in its traditional sense. We are talking to an 18- or 20-year-old individual who does not necessarily have any past experience in the business——

Senator Pell. My question is, that a 20-year-old individual can come in and borrow money to buy a car, and one person will handle this loan. If he wants to borrow money for his education, then another person will handle that loan. Why would that be in most banks?

Mr. Amazeen. In the case of where the individual wishes to finance an automobile purchase, one would take a look at that request like any other credit request, such as if the person is employed, and so forth.

It requires a credit analysis that would not be required on a guaranteed student loan.

Senator Pell. That is right. I recognize that because you have got Federal guarantee backing you up, why would not the same person handle both loans?

Mr. Amazeen. I think in many cases this is done. I know, generally speaking, wherever you have any branch banking, an individual can walk into a branch and discuss an educational loan, as well as any other type of loan.

Senator Pell. The reason I ask this, is that my son is a banker, and he only handles the noneducation loans. I asked him why he does not handle the education loans, and he said it is a completely separate department.

I was wondering if this was true across the country.

Mr. Amazeen. I cannot speak across the country, but I am quite sure that for each case, such as the one you have just described, you could find one such as I have just described.

Mr. Smith. Mr. Chairman, if I might add to that answer a little bit, in speaking for California, and I believe it is probably the same elsewhere, this is such a highly specialized and complex type of transaction for the bank in that it is essentially not credit in the traditional sense, such as an applicant for any other type of installment loan.

This is essentially a credit operation in the bank that requires a level of expertise that is distinctly different from that required of a typical loan officer. It is not judged as banking credit would be, and that is part of the reason for the differences in the default and delinquency ratios which we compared in our testimony to the more popular type of direct bank credit.

It is essentially a papermill in the bank. It requires a very highly labor intensive operation. We are just processing paper in that department.

Senator **Pell.** In the guaranteed student loan program?

Mr. **Smith.** Right.

Senator **Pell.** You heard the testimony of the officials of the Government. What were your reactions to their suggestions and their proposals in general. Do you take any particular exception to any of their suggestions, or do you have any recommendations for this subcommittee?

Mr. **Smith.** Let me answer first. My own reaction is that I see the bank lender being put in the position of policing this activity more and more.

I think in spite of the fact that banks are being paid a subsidy, it is difficult for us since we do not have the legislative or regulatory power to enforce the policing of educational institutions.

I think it is unfair of the Office of Education to require banks to absorb the loss of the refund for schools that have closed. We do not in a position, or at least we have not been in a position, of measuring the school's quality or ability to continue in business, or to deliver the educational product. To transfer this responsibility to the banks may indeed cause many banks to decide that since this program is already marginally profitable, or is operating at a loss, or is done by that bank as part of its social responsibility, they will not continue.

Senator **Pell.** At the same time there is an incentive in the bill, that you would have the use of the money for a longer period of time, you get $1,500, a subsidy and special payment on the example used, and $500 is turned over to the student, and you have not paid the use on the total amount of that money until it is paid out. Would that not be correct?

Mr. **Smith.** You are referring to partial disbursements?

Senator **Pell.** Correct.

Mr. **Smith.** I am not as concerned about partial disbursements because banks typically have mechanical processes to make partial disbursements such as during the life of a construction project.

We file a claim and under the proposed regulations, the Government only pays a proportionate amount of the total claim.

Senator **Pell.** But that is to encourage you to give it out in smaller installments, that is the whole reason for it.

Mr. **Smith.** Again that is transferring the policing activity back to the lender, and I do not think the lender will respond by accepting that responsibility.

Senator **Pell.** It is not transferring. It is saying please do not give $1,500 all at once to the student. Give it to them in $300 or $500 lots, and then you are absolutely covered.

Mr. **Smith**. I disagree that there is any absolute protection. If we had it in three installments, it might lessen the loss, but suppose the school went out of business the day after we made the second installment?

Senator **Pell**. You would still have the $500.

Mr. **Smith**. Still have the loss. They are loan losses to the banks involved in this program, in addition to the operating expense.

Senator **Pell**. I always think it is a privilege for a bank to be willing to lend money to somebody, otherwise you go out of business. But banks look on it as a privilege for somebody to borrow from the bank.

Mr. **Smith**. I hope that has been a more historical image than it is now.

You must remember, however, that there is keen competition for available funds for a bank to loan.

Senator **Pell**. I think that the Guaranteed Student Loan Program has done a great deal to change the image of the bankers, from the time of J. P. Morgan and the midget, when the bankers did not enjoy such a reputation in the community. Socially bankers have always been of the highest order, but in general were thought of as hardhearted persons.

I do not think that image remains. I think the Guaranteed Student Loan Program has played a role in that image. Also, banks have become more socially conscious, and gotten more into public service program.

Would there not be some way of working this out to encourage banks to make partial payments, and at the same time maybe the regulations could be altered a certain amount to have a lower risk?

Obviously, if you are going to make any return at all, particularly with the guaranteed loan, there should be a little risk in it.

Mr. **Smith**. I agree. I think it can be worked out. I think that has changed——

Senator **Pell**. You cannot have any loan without a risk at all?

Mr. **Smith**. We acknowledge that.

Incidentally, there is a very low loyalty level of the student to the bank after graduation as far as retaining that student as a permanent bank customer.

Senator **Pell**. They do not tend to come back?

Mr. **Smith**. No. They tend to return to their home, and bank where they live.

Mr. **Amazeen**. If I may, I would just like to add a word to Mr. Smith's comments.

I think that many of the proposals that we heard a few minutes ago are very constructive ones.

Of course, the major one is the possible exclusion of the proprietary schools. I am not sure what the impact of that is. It does strike me as a move toward separating the business of lending from the business of education, and maybe that would make some good sense in the long run.

Senator **Pell**. Thank you.

Senator Stafford.

Senator **Stafford**. Thank you, Mr. Chairman.

I have a question, Mr. Tobey, in connection with page 2 of your statement. You say that the amount of time required for processing proposed changes is going to be simply too long for many participants. More effective and immediate relief is necessary.

I wonder if you had any concrete suggestion you wanted to make today on how this could be done, or if you intended to supply them for the record when you revise and extend your remarks?

If you have them today, we would like to hear it.

Mr. Tobey. Mr. Amazeen, would you care to answer?

Mr. Amazeen. We would like to get much more specific in the next couple of weeks, but specifically we stand ready as an industry to provide assistance to the Office of Education as they are trying to strengthen their regional efforts. We stand ready to try to supply talent, or training, or whatever it may be, and to have them actually come into the banks and define with us the possible problems that perhaps we as an industry are not even aware of at this particular time, so we can highlight the problems and take specific actions.

Senator Stafford. In your discussion, Mr. Tobey, and discussion of the Administration witnesses earlier, there were figures about delinquency rates, default rates, and I am wondering if you have any statistics as to how many students, or what percent of students out of those who apply for a loan are turned down in the first instance?

Mr. Amazeen. For student loan?

Senator Stafford. Yes, under the Guaranteed Student Loan Program.

Mr. Amazeen. I doubt that very few are. I know we handle it on a first-come, first-served basis, if they meet the qualifications of the statute and regulations.

Senator Stafford. Let me ask it this way. Do you have many who apply who do not meet the qualifications for a loan?

Mr. Amazeen. In our experience that number has been declining each year as more people come to understand what the qualifications are.

Senator Stafford. Without binding you to anything, would you put any percent figure on the number who might not qualify for loans; would it be 10 percent, or 20 percent?

Mr. Smith. Senator, I would say it is less than 10 percent, and primarily affected by an individual participating bank's own rules.

Senator Stafford. I see.

Mr. Smith. If you were literally following the provision of the law, everyone would be eligible.

Senator Stafford. Taking care of applications on a first-come, first-served, basis, do you find that the available funds for guaranteed student loans have been utilized before the total number of students who want them have had a chance to apply?

Mr. Amazeen. Well, I am not aware that that is happening. I realize there was a downturn in volume, I believe over the last fiscal year, but I can answer by saying that I do not know of a student, at least in our area of the country, that has needed this type of assistance and has not been able to obtain it.

Mr. Tobey. I was going to add, Senator, that I think you will find that the normal commercial banking operation involving student loans is such that if they are to turn downward the amount of volume that they feel that they are capable of handling, their first concern is to take care of previous customers. This is the second-year student, third-year, fourth-year student that has previously borrowed.

I do not know of any instance where that student has not been able to have its further borrowing needs satisfied. The new student coming into borrowing marketplace for the first time might have some difficulty. But, again, he has undoubtedly, through his parents or himself, gained some relationship with a commercial bank that could take care of his needs.

Senator STAFFORD. I know, Mr. Tobey and your colleagues, there are some congressional offices that get a considerable volume of inquiry from students who want loans in which they say they have not been able to get them.

This is not necessarily true of my own State, but it is in some of the States and some districts. And that is why I have asked these questions.

You may find other Senators and Congressmen asking you these questions directly since they have students who were not able to get loans. And there have been newspaper accounts also indicating students have not been able to obtain loans when they wanted them.

So we may want to pursue this question further from the committee as well.

Thank you.

Senator PELL. Thank you very much.

One final detail question.

What would be your view with regard to the hiring or engagement of private collection firms to recover these loans?

Mr. TOBEY. Well, if I may comment on something. We are using a service provided by the First National Bank of Minneapolis. It has started to specialize, and this is probably 2 years ago, in the handling of processing, collection, et cetera, of student loan portfolios.

I think, at the present time, they have five or six major banks across the country that they are providing a service for—of course, at a fee. And, very frankly, our experience has been excellent because they are highly specialized.

As Mr. Smith has indicated, this is a very complex lending function from the beginning to the very end. And having specialized in this, they are performing at a level of efficiency that we are not ourselves capable of arriving at.

Senator PELL. What percentage do they get of the amount collected as their fee?

Mr. TOBEY. Our delinquency rate on our loans of repayment, last month slightly under 5 percent——

Senator PELL. My question is: What percentage does First of Minnesota receive when they collect for you?

Mr. TOBEY. I am sorry, sir. I do not recall the exact figure. It is the flat amount per loan per month, and it is a nominal amount.

Senator PELL. Would you submit that for the record?

Mr. TOBEY. I would be glad to.

Mr. **Amazeen**. If I may add to that point.

I think in the area of specific collections, if the Office of Education were going to attempt to do business with outside private agencies, it would be a very constructive move.

They alluded this morning to a startup period, a time of training and hiring of their own personnel.

I think if we went out to private collection agencies, they would go to someone with experience and begin to resolve the problem now. And if the problem slackened in a couple years from new, they could back up and not be stuck with a staff that they did not know what to do with.

Senator **Pell**. Thank you very much.

At this point I order printed the statement of Mr. Tobey, with attachments and the statements of those who could not attend and other pertinent material submitted for the record:

[The material referred to follows:]

STATEMENT OF ROBERT E. TOBEY, PRESIDENT
THE CONSUMER BANKERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON EDUCATION
SENATE LABOR AND PUBLIC WELFARE COMMITTEE
MARCH 5, 1975

Good Morning, Gentlemen: My name is Robert E. Tobey. I am First Vice President of the National Bank of Detroit and President of The Consumer Bankers Association. I appreciate the opportunity to visit with you this morning and to discuss what we believe are important aspects of the Student Loan Program.

The Consumer Bankers Association's membership represents commercial banks holding in excess of 75% of the total outstanding in student loans. The problems experienced by banks and other lenders in the Federally insured student loan program are numerous. The most significant problem is in the matter of defaults. Defaults currently represent in excess of 20% of the total outstanding loans in repayment in many major banks and delinquent student loans have a similar ratio or higher. This compares to the national average of 5.4% for unsecured revolving consumer credit at December 31, 1974, as reported recently in a national survey.

The second most frequent complaint among participants in this program is the very complex operating procedures required by the present law and regulations. We are aware of the substantial increases in staffing that is planned by the Office of Education. However, the effective implementation of these plans could be two to three years from now. It is our contention that more immediate relief is necessary to maintain the present participation level of bank lenders. Most banks are involved today in measuring the profitability of all loan programs, some banks have made definite plans for limiting their investment in the program and some banks have discontinued the program entirely in recent weeks. A notable example is The Bank of California with $28 million in outstandings, representing approximately one-sixth of the total outstandings in the state of California. The amount of time required for processing the proposed changes is going to be simply too long for many participants. More effective and immediate relief is necessary.

It is our recommendation that any legislative effort attempt to 1. establish regional supervision for more immediate response and to determine specific action necessary to resolve present problems; or 2. directly support individual state loan programs; 3. identify specific standards of qualification for participating institutions; 4. require participating schools to provide necessary information needed by the Office of Education for processing loans; 5. recognize that student loans are a special type of credit not comparable to other types of bank consumer loans.

This legislative effort should direct that regulations be timely and clear so that student applicants may understand the eligibility, income and repayment requirements of the loan. Congressional action is necessary if this very desirable support of post secondary education is to continue.

Since our notice of this hearing was short, we request the permission of the chairman to revise and extend our testimony in the record within the next fourteen days.

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An Additional Statement for
The Consumer Bankers Association
Regarding Student Loan Defaults

Mr. Chairman:

We appreciate your according our Association an opportunity to present additional comments regarding the student loan default problem. Before commenting generally on the Administration's recommendations we would like to emphasize that commercial banks will be willing to act as the primary lenders for student loans. However, a realistic rate of interest in light of today's high costs of funds and the guarantee that the Federal government will quickly process our claims when defaults occur are essential. We feel strongly that if these two reforms were enacted there would be a significant increase in lender participation.

With regard to the general problem of defaults, we feel strongly that the student loan program has been run by the Office of Education in a manner which would encourage the student to default. All of us are aware that if you are delinquent on an instalment loan to a bank or other lender that action will be taken to encourage you to begin payments. Most borrowers know that banks will either refer the matter to a collection agency or use some other means. If this does not work the creditor will take court action or, if possible, repossess the collateral.

Students are aware that the Office of Education does not have any type of effective collection mechanism and that essentially when they default no realistic effort will be made to collect.

Many lenders will candidly admit that their collection operations do not yield large amounts of money. However, the same lender will admit that without their collection activities the psychological impact upon the borrower to pay his debt in a timely fashion would be devastating. I am afraid that this psychological effort is not present in the student loan program. Also, there is a possibility that a properly run recovery operation could yield the government a substantial return on its investment.

Now. turning to the Administration's recommendations we have a few points which we would like to make:

Recommendation for minimum payment for married borrowers

Under the proposed changes student borrowers who happen to marry each other would be granted a combined loan repayment program. If each student had incurred a maximum amount of loans and the maximum repayment period were utilized, payments would be in excess of $232 per month. If each student had dissimilar loan amounts, the effort to combine the repayment in a single payment amount would necessitate proportioning the payment to reduce each loan in an appropriate amount. We are concerned as to the fate of the combined loan if the students who marry are later divorced. Perhaps an alternative solution would be to offer a lower monthly payment on each loan with an annual review to determine the necessity for the reduced payment amount. This is an alternative permissible at the present time with the approval of the Regional Director.

Multiple disbursements

Multiple disbursements places the lender more significantly into a position of policing the entire program. If multiple disbursements are to be included in the regulations they should be on a "letter of credit" or "undisbursed loan" basis. The mechanics could then involve a simple request from the student verified by the school to allow future advances. Otherwise multiple disbursement presents a costly and time-consuming approach from the standpoint of the lender.

Requirement for Schools to provide student data

We endorse the requirement that educational institutions be required to cooperate in providing student address and enrollment information.

Proprietary schools as eligible lenders

The question of proprietary schools as eligible lenders is a very difficult proposal. We agree that the majority of proprietary schools that also act as eligible lenders have created many problems. However to bar proprietary schools without restricting all educational institutions may be excessively discriminatory. The extreme delinquency ratio cited for proprietary school students is not exclusive to the portfolio generated by proprietary school lenders. I believe the delinquency ratio for proprietary school students, regardless of who the original lender was, is equally high. Consideration should be given to barring any kind of special arrangements or referral programs for proprietary schools if they are to be eliminated from the program. The barring of all educational institutions would reinstate their proper role as educators and let the lenders handle the making of loans.

Collection activities

Any proposed regulations should identify the responsibility of the Office of Education to develop more realistic and effective collection practices than has been demonstrated to date.

Student loan bankruptcies

The student loan bankruptcy issue may be merely symptomatic of the general permissiveness of this program. With more explicit instructions to students, better defined eligibility requirements and stronger collection effort, perhaps we could restore enough discipline in this program to avoid the question of providing the U.S. Government with an additional priority.

Mr. Chairman: Over the next month The Consumer Bankers Association is going to send a questionnaire relative to the federally guaranteed insurance on student loan programs to all its member banks. From the questionnaires, we should be able to ascertain the feelings of consumer bankers throughout this country as to how to make the program more workable and viable.

STUDENT LOAN SERVICING AGREEMENT

AGREEMENT, Made as of the ________ day of ____________________, 1973, between FIRST NATIONAL BANK OF MINNEAPOLIS (herein called "First") and NATIONAL BANK OF DETROIT (herein called "Lender").

1. First has established a program and system for processing and administering American Medical Association Education and Research Foundation guaranteed student loans. First agrees to act as agent for Lender in administering such student loans and First, in its discretion, undertakes to service and will perform the following functions and duties in connection therewith:

   a. Transfer all loan information on existing loans into First's servicing system.

   b. Process new loan applications for guarantee commitment.

   c. Prepare note for student's signature.

   d. Prepare forms required by American Medical Association Education and Research Foundation for reporting disbursements, conversions, cancellations and paid loans.

   e. Provide Lender all necessary reports described in First's Student Loan operating manual to properly control its loan portfolio.

   f. Perform all audits and provide all reports as may be required by American Medical Association Education and Research Foundation.

   g. Prepare annual "Lenders Request for Payment of Interest" due from student.

   h. Compute necessary information for conversion of interim note to payout status.

   i. Negotiate repayment schedule with student prior to maturity of interim loans.

   j. Convert interim loans to payout status on First's Installment Loan System and furnish student with schedule of repayment and coupon book.

   k. Collect and record all monetary transactions and status changes affecting each student's loan.

   l. Remit payments received including all fees and charges due Lender on a weekly basis.

   m. Perform all collection procedures consistent with acceptable collection practices.

n. First reserves the right to allow any payout note obligor extensions, revisions, or reconversions back to interim status, consistent with the regulations which may be necessary for orderly liquidation of a loan.

o. Prepare and process death, total disability and default claims.

p. Perform other functions set forth in First's Student Loan Operating Manual provided to Lender.

2. Lender hereby appoints First as its agent to administer those student loans made by Lender as described in Paragraph 1, in accordance with the above-listed activities and Rules and Regulations of the American Medical Association Education and Research Foundation and with full power to sign and act on Lender's behalf in all transactions with said Foundation.

3. First shall have no responsibility for loss or damage suffered by Lender on any serviced loan, except as is directly attributable to First's negligence, and Lender assumes all responsibility for correctness and completeness of all loan related papers turned over to First.

4. First may return to Lender at any time any loan related papers which it has been servicing, and Lender may demand return of any loan related papers upon written notice delivered to First at least thirty (30) calendar days prior to the end of any calendar quarter. Either party may terminate this agency agreement upon written notice to the other party delivered at least thirty (30) calendar days prior to the end of any calendar quarter. First shall then have the responsibility for returning all loan related papers to Lender within a reasonable time thereafter.

FIRST NATIONAL BANK OF MINNEAPOLIS

By____________________________

Title__________________________

NATIONAL BANK OF DETROIT

By____________________________

Title__________________________

July , 1973

First National Bank of Minneapolis
120 S. Sixth Street
Minneapolis, Minnesota 55402

COPY

Gentlemen:

It is our understanding that the fee schedules in connection with the Student Loan Servicing Agreement between your bank and this bank covering the processing and administering American Medical Association Education and Research Foundation guaranteed student loans will be as follows:

FEE SCHEDULES

INTERIM (IN-SCHOOL) LOANS

$3.60	Per note acquisition cost on existing loans in portfolio
$3.00	Per note acquisition cost on new loans
$ .85	Per month per note servicing fee

PAYOUT LOANS

When a student's interim notes reach maturity and are converted to a payout status the following schedule replaces the above fee schedule. The fee applies to each student's Installment Loan.

$1.46	Per month per payout loan

There will be a $3.60 per loan acquisition fee on loans in payout status at the time the bank subscribes to the service. No acquisition fee on future loans automatically converted from an interim status to a payout status.

It is our further understanding that you agree that the foregoing fee schedules shall remain in effect unchanged for a minimum of one year from the date of the agreement to which they relate.

Will you please indicate your confirmation of and agreement with the foregoing by signing and returning to us the enclosed copy of this letter.

COPY

Very truly yours,

NATIONAL BANK OF DETROIT

By______________________________
Vice President

RET:WWS:sak
Encl.

Confirmed and agreed to

this ______ day of _______________, 1973.

FIRST NATIONAL BANK OF MINNEAPOLIS

By______________________________

Title__________________________

First
Minneapolis

Student Loan Servicing Center
First National Bank of Minneapolis
P.O. Box A1577, Minneapolis, MN55480
Telephone 612 370 4035

December 6, 1974

Mr. Albert A. Maier
Manager, Student Loan Section
National Bank of Detroit
P. O. Box 334A
Instaloan Division
Detroit, Michigan 48232

Dear Mr. Maier:

Increasing costs and inflation are not strangers to anyone these days. The Student Loan Servicing Center is no exception. Personnel costs have risen sharply, as has paper, phones, computer costs, and just about everything else, as an example; postage, which is a necessarily large expenditure for us, with the anticipated increase will have risen 62.5% since we settled on our initial fee schedule.

For the past four years we have been able to hold the line. However, we have found that with costs spiraling we can no longer service loans at 1971 prices and still maintain the high quality of service that you have the right to expect. It is for this reason we have no choice but to adjust our prices.

The attached fee schedule reflects these changes which will occur in part January 1, 1975, with additional changes effective May 1, 1975.

Please contact us if you have any questions.

Sincerely,

K. N. Erickson
Assistant Vice President

KNE/lmo

Enclosure

STUDENT LOAN SERVICING CENTER

FEE SCHEDULE

Effective January 1, 1975 (February 1, 1975 - Billing)

CURRENTLY

New Loan Fee:

	$2.00	**Per note acquisition cost on new loans if lender processes application through regional office and prepares input document.**
		or
	$2.50	Per note acquisition cost on new loans if Service Center prepares input document.
		or
3.00	$3.60	Per note acquisition cost if Service Center processes the application and prepares input document.

Monthly Servicing Fee: (Payout)

1.45	$1.79	Per student per month during Repayment (payout) period.

Effective May 1, 1975 (June 1, 1975 - Billing)

Monthly Servicing Fee:

.45	$ .85	Per month per note during in-school period.
.55	$1.20	Per month per note during grace period.

MEMORANDUM

DATE: October 2, 1973

TO: PARTICIPATING BANK

FROM: STUDENT LOAN SERVICING CENTER

SUBJECT: TRANSACTION CODES

DEBIT CODES

5507 - Reverse late charges originally received by bank or waived

5508 - Reverse paid late charges originally received by the Student Loan Servicing Center

5509 - Assess late charges

5513 - Reverse payment originally received by Student Loan Servicing Center

5514 - Reverse payment originally received by bank

5531 - Rebate bank discount

5537 - Rebate government interest

CREDIT CODES

✓ 7707 - Cash received by bank to pay late charges

7708 - Cash received by Student Loan Servicing Center to pay late charges

7713 - Payment made by student to the Student Loan Servicing Center

7716 - Advice of payment by bank to the Student Loan Servicing Center

3353 - Grant extension

3357 - Cancel extension

9909 - Request coupon book

TABLE OF CONTENTS

Page

SECTION I - GENERAL INFORMATION

A. Objectives of the Service 1-1

B. Features of the Service 1-2

C. Benefits of the Service 1-4

D. Participating Bank Agreement 1-5

E. Summary of Rules and Regulations 1-7

1. Who May Borrow 1-7

2. How to Apply 1-7

3. Maximum Loan Amount 1-8

4. Eligible Schools 1-8

5. Insurance Premium 1-8

6. Interest Rates 1-8

7. Federal Interest Benefits 1-8

8. Special Allowance 1-9

9. Repayment 1-10

10. Collections 1-10

11. Claims 1-10

SECTION II - LOAN PROCESSING PROCEDURES

A. Conversion of Existing Interim Loans 2-2

1. Conversion Worksheet 2-1

2. Notice to Student 2-4

Page

B. Conversion of Existing Payout Loans 2-6

1. Conversion Worksheet 2-5

2. Notice to Borrower 2-8

C. Processing New Loan Applications - FISL 2-10

1. Student Loan Application (OE Form 1154) 2-12

2. Student Loan Application Supplement (OE Form 1260) 2-14

3. Student Loan Application Supplement Instructions 2-16

4. Promissory Note and Disclosure 2-20

5. Insurance Fee 2-20

6. Disbursement of Loan Proceeds 2-20

7. Statement of Responsibilities 2-20

8. Advice of Loan Disbursement 2-21

SECTION III - SERVICING - INTERIM LOANS

A. Notice of Loan Disbursement 3-2

B. Lenders Manifest - FISL 3-4

C. Monthly Transaction Statement 3-7

D. Interest Billing 3-10

1. Interest Billing Report 3-10

2. Government Interest Billing-Eligible Loans 3-14

3. Special Allowance 3-14

4. Student Interest Billing-Ineligible Loans 3-16

E. Student Status Letter 3-19

Page

F. Loans Maturing Report 3-22

G. Student's Letter of Maturity 3-26

H. Cross Reference List 3-28

I. Trial Balance 3-30

J. Recap Report 3-36

K. Monetary & Status Transactions 3-38

L. Paid Interim Note Report 3-40

M. Interim Loan Past Due Report 3-42

N. New Loan Report 3-44

SECTION IV - SERVICING PAYOUT LOANS

A. Loan Processing Procedures

1. New Loans in Payout Status 4-1

2. Confirmation Form 4-1

3. Coupon Book 4-1

4. Loan Inquiry Coupon 4-1

B. Collection Procedures

1. Payments 4-4

2. Late Notice 4-4

3. Final Notice 4-4

4. Personal Followup 4-4

5. Late Charges 4-4

6. Extensions 4-4

Page
7. Refinances 4-5
8. Deferments 4-5
9. Claims 4-5
10. Monetary Transaction Advice 4-7
11. Payments Received by Lender 4-8
12. Return Items 4-8

C. Reports

1. Loan Index 4-10
2. Trial Balance 4-12
3. Cash Receipts Journal 4-16
4. Delinquent Accounts Report 4-20
5. Accrual Report 4-22
6. Paid Accounts Report 4-24
7. Tax Information 4-25

SECTION V - APPENDIXES

Appendix A: Federal Register Vol. 35 No. 213

Appendix B: Amendment to 177.2 and Addition of 177.10

OBJECTIVES OF THE SERVICE

To provide lenders participating in a guaranteed student loan program with a complete service for the administration of their student loan portfolio and which will:

1. Relieve them of the costly bookkeeping, control and other administrative responsibilities.
2. Prepare all necessary reports and maintain all required records.
3. Assure the lender of compliance with all rules and regulations.
4. Provide a uniform and more effective collection and liquidation procedure.
5. Enable the lender to maintain maximum participation and to be in a better position to share in the benefits of the Student Loan Marketing Association when available.

NEW AND EXISTING INTERIM LOANS
The service program is designed to accommodate the lending bank's existing Interim Loan Portfolio and all new loan requests received.

BOTH USAF AND FISL
The service program allows a mixture of both USAF and FISL for a student. Each note is treated individually for reporting, controlling, and billing of Interest.

BILLING OF INTERIM INTEREST
The service will take complete control of the interest billing. Interim interest is automatically calculated and maintained by an automated system for each loan. Interest will be billed directly to student on those loans which are ineligible for interest benefits and to the Government on eligible loans.

BILLING OF PAYOUT INTEREST
Some loans qualify for interest benefits from the Government when the loan is converted to a payout status. The service program will continue to bill and maintain control of this interest for the life of the payout loan.

BALANCE CONTROL AND BILLING OF "SPECIAL ALLOWANCE"
Servicing will include the control and reporting to Government the unpaid principal balance on those loans which qualify for the Special Allowance payment.

MONETARY AND STATUS TRANSACTIONS
The service will include the processing and control of all monetary transactions and status changes received.

AUDITING
The service will include the handling and auditing of the various reports received from the Office of Education and the USAF Agency. Through an automated system the service will insure and maintain complete and accurate records of all student loan transactions.

CONVERSION OF MATURING INTERIM LOANS TO PAYOUT
The Service Center will calculate the repayment options, negotiate a repayment schedule with the student and automatically convert the student's loans into a single Installment Loan on it's Installment Loan System. Coupon payment books will be furnished to the student for the term of the payout loan.

EXISTING PAYOUT LOANS

The service is designed to accommodate the lending banks existing payout loans.

BILLING OF PAYOUT INTEREST AND SPECIAL ALLOWANCE

Some loans qualify for Interest Benefits and Special Allowance from the Government after the loan is converted to a payout status. The service will continue to bill and maintain control of the interest benefits and report to the government the principal balance of those loans that qualify for Special Allowance for the term of the payout loan.

COLLECTIONS

The service will include all necessary collection procedures to insure orderly liquidation of accounts. Such collection procedures will include past due notices, collection of late fees, collection letters, personal contacts, and collection referrals as required.

MONETARY AND STATUS CHANGES

The service will include the processing and control of all monetary transactions and status changes received, with monetary proceeds remitted to the lender on a periodic basis.

AUDITING & REPORTING

The service will include the handling and auditing of all reports received from or supplied to the Office of Education and the U. S. A. F. Agency. Through an automated Installment Loan System the service will insure and maintain complete and accurate records of all student loan transactions and supply Lender with all necessary reports to properly control it's loan portfolio and General Ledger Accounts.

DEFERMENTS

The service will include reconversion of a student's loans from payout status to deferred status if the borrower is eligible for such deferment as a member of the Armed Forces, Peace Corps, or Vista, or has returned to an eligible school to pursue a full time course of study.

CLAIMS

The service will include the filing of Claims on behalf of the lending bank at appropriate times and circumstances.

BENEFITS OF THE SERVICE

ADMINISTRATION

The lending bank is relieved of all administrative duties in connection with it's student loan portfolio.

STANDARDIZED PROCEDURES

Procedures for remittances, servicing, processing, and collection are standardized through central servicing and constantly reviewed by a group working full time in the servicing of student loans. Standardization will result in a program easier to administer and control.

PERSONNEL

Using the facilities of a service center with standardized loan bookkeeping and servicing, the effect of personnel turnover and the inherent problems of retraining, continuity, and follow-up are eliminated.

ECONOMY

The use of central servicing with automated procedures will stabilize costs on a program that must be administered for several years. The student loan program is continuously expanding and administration costs will continue to increase unless central servicing is utilized.

REDUCED DELINQUENCY

The use of professional techniques in processing and servicing of a loan should result in lower delinquency. The continued updating and education on tried and tested collection methods are available through specialized servicing. Our twenty-five years of collection experience and credit information facilities help speed the collection efforts.

STATISTICAL DATA

Through the use of automated equipment, required statistical data can be furnished as a by-product of loan bookkeeping. Any changes required by the government from time to time can be readily implemented through the servicing center.

PARTICIPATING LENDER AGREEMENT

STUDENT LOAN SERVICING AGREEMENT

AGREEMENT, Made as of the ____ day of ______________________

197 , between FIRST NATIONAL BANK OF MINNEAPOLIS (herein called

"First") and ____

(herein called "Lender").

1. First has established a program and system for processing and administering United States Government Insured Student Loans under Title IV Part B of the Higher Education Act of 1965, as amended, and United Student Aid Funds, Inc. guaranteed student loans. First agrees to act as agent for Lender in administering such student loans and First, in it's discretion, undertakes to service and will perform the following functions and duties in connection therewith:

a. Transfer all loan information on existing loans into First's servicing system.

b. Process new loan applications for insurance or guarantee commitment.

c. Prepare note for student's signature and calculate insurance or guarantee fee.

d. Prepare forms required by U. S. Commissioner of Education or United Student Aid Funds, Inc. for reporting disbursements, conversions, cancellations and paid loans.

e. Provide Lender all necessary reports described in First's Student Loan Operating Manual to properly control it's loan portfolio.

f. Perform all audits and provide all reports as may be required by insuring agency.

g. Prepare quarterly "Lenders Request for Payment of Interest and subsidy" due from U. S. Commissioner of Education and/or student.

h. Compute necessary information for conversion of interim note to payout status.

i. Negotiate repayment schedule with student prior to maturity of interim loans.

j. Convert interim loans to payout status on First's Installment Loan System and furnish student with schedule of repayment and coupon book.

k. Collect and record all monetary transactions and status changes affecting each student's loan.

l. Remit payments received including all fees and charges due Lender on a periodic basis.

m. Perform all collection procedures consistent with acceptable collection practices.

n. First reserves the right to allow any payout note obligor extensions, revisions, or reconversions back to interim status, consistent with the regulations which may be necessary for orderly liquidation of a loan.

o. Prepare and process death, total disability and default claims.

p. Perform other functions set forth in First's Student Loan Operating Manual provided to Lender.

2. Lender hereby appoints First as it's agent to administer those student loans made by Lender as described in Paragraph 1, in accordance with the above-listed activities and Rules and Regulations of the U. S. Commissioner of Education and the trustees of United Student Aid Funds, Inc. and with full power to sign and act on Lender's behalf in all transactions with said Commissioner and Trustees.

3. First shall have no responsibility for loss or damage suffered by Lender on any serviced loan, except as is directly attributable to First's negligence, and Lender assumes all responsibility for correctness and completeness of all loan related papers turned over to First.

4. First may return to Lender at any time any loan related papers which it has been servicing, and Lender may demand return of any loan related papers upon written notice delivered to First at least thirty (30) calendar days prior to the end of any calendar quarter. Either party may terminate this agency agreement upon written notice to the other party delivered at least thirty (30) calendar days prior to the end of any calendar quarter. First shall then have the responsibility for returning all loan related papers to Lender within a reasonable time thereafter.

FIRST NATIONAL BANK OF MINNEAPOLIS

BY________________________________

________________________________BANK

BY________________________________

SUMMARY OF RULES AND REGULATIONS—FISL

The following is a brief summary of important facts to remember when granting loans to students which are subject to the provisions of Title IV Part B of the Higher Education Act of 1965, as amended. Also, included as Appendix A is a reproduction of the Federal Register which reflects the applicable rules and regulations governing loans made under the Act.

WHO MAY BORROW

Regardless of family income, any student is eligible to apply for a loan provided he or she:

1. is enrolled and in good standing or has been accepted for enrollment at an eligible school;
2. is carrying at least one-half of the normal full-time workload as determined by the school; and
3. is a citizen or national of the United States or is in the United States for other than a temporary purpose.

HOW TO APPLY

Applicant:

1. Obtains Student Application for Federally Insured Loan, OE Form 1154 and Supplement, OE Form 1260 from lending bank or school.
2. Completes Part A of both application and supplement.
3. Completes Part B of application (with family, as applicable).
4. Submits to education institution for completion of Part C of application and Part B of supplement.
5. Submits completed application and supplement to lending bank for it's approval and completion of Part D of application and Part C of supplement. (Please note that under this program, loans are made or denied at the discretion of the lender.) (The Government expects to combine the application and supplement into a single form. When available, the sections to be completed by the student, school and lender will be clearly identified.)

MAXIMUM LOAN AMOUNT

1. $2500.00 Maximum each academic year (normally 8-9 months) but must never exceed the cost of education less other financial aid received.

2. $500 Maximum (must be applied for on a separate application) if student is pursuing a program of study longer than a normal academic year of nine months.

3. $7500.00 Maximum for under graduate education. $10,000.00 Maximum for graduate or professional students.

ELIGIBLE SCHOOLS

Most colleges, universities, schools of nursing and many business, vocational and technical schools are eligible. Generally, this includes public or private educational institutions located in the United States or elsewhere that offer at least a one-year program of study leading to a degree or employment in a recognized occupation. Further information regarding the eligibility status of a particular school may be obtained from the Office of Education or *the Service Center*.

INSURANCE PREMIUM

A prepaid insurance premium of one-fourth of one percent calculated on the amount of the loan for the term of the interim note will be collected from the borrower or deducted from the proceeds of the loan by the lender. This premium is paid only once, and no refunds or adjustments will be made.

INTEREST RATES

6% per annum on the unpaid principal balance of any loan disbursed prior to August 3, 1968.

7% per annum on the unpaid principal balance of any loan disbursed on or after August 3, 1968.

FEDERAL INTEREST BENEFITS

For students who qualify, the Federal Government pays the interest while the student is attending school plus a grace period of from 9-12 months.

Prior to March 1, 1973, a student qualified for this interest benefit providing the Adjusted Family Income was less than $15,000 per year.

On or after March 1, 1973 a student will qualify for this subsidy provided the loan does not exceed the amount recommended by the school in Section IV of Part B of the supplement.

A lender may exceed the school's recommendation and still make a subsidized loan providing he clearly records the basis for his determination and:

A. If family adjusted income is less than $15,000, the lender is encouraged to communicate with the school.

B. If adjusted family income is over $15,000 the lender must communicate with the educational institution.

While a lender has the authority to make a subsidized loan that exceeds the school's recommendation, it is expected that he will do so only where he has knowledge of the family financial situation and where in his judgement, the school's recommendation is not adequate to meet the student's need. In such cases, and as indicated above, the lender must record in his files the basis for his determination.

During the repayment period, the student is responsible for all interest with the following exceptions:

1. Loans disbursed prior to August 3, 1968 when student is eligible for interest benefits, student pays 3% per annum with government paying 3% per annum.

2. Loans disbursed on or after August 3, 1968, but before December 15, 1968 when student is eligible for interest benefits, student pays 4% per annum with government paying 3% per annum.

(Students who do not qualify for Federal interest benefits may borrow, but they must pay all of the interest.)

SPECIAL ALLOWANCE

Any loan disbursed on or after August 1, 1969 may be eligible for a special allowance which is established at the end of each calendar quarter for the preceding quarter and may range from 0 to 3% per annum.

REPAYMENT

Although a loan may be prepaid at any time without penalty, repayment of the loan begins not earlier than nine months nor later than one year after the date of graduation or withdrawal from school. Repayment schedules will normally be arranged for 5 to 10 years, however the student will be required to pay a minimum of $360 per year. Repayment may be deferred while the borrower is a member of the Armed Forces, a full-time volunteer in the Peace Corps or VISTA, or for any period during which he returns to an eligible school to pursue a full-time course of study. The borrower is encouraged to make at least partial payments during such periods of deferment in order to reduce the principal amount of the loans. For students eligible for Federal interest benefits, such payments on behalf of the borrower will continue or resume during such periods of deferment.

COLLECTIONS

Lenders will use due diligence in servicing and collection of loans, and shall utilize collection practices no less extensive and forceful than those generally in force among financial institutions.

CLAIMS

Claims may be filed when it is concluded that the borrower no longer intends to honor his obligation, is in default for 120 days and a written demand for payment has been made on the borrower not less than 30 days or more than 60 days prior to filing of claim. In the event of bankruptcy, death, total or permanent disability a claim may be filed when proper determination of such circumstances has been made.

The Federal Government insures 100% of the principal balance on each loan. On loans where the commitment date is between July 1, 1972 and August 19, 1972 or is after March 1, 1973, both principal and interest is insured.

In case of death or permanent and total disability on loans made on or after December 15, 1968 the Federal Government will pay the entire amount owed by the student.

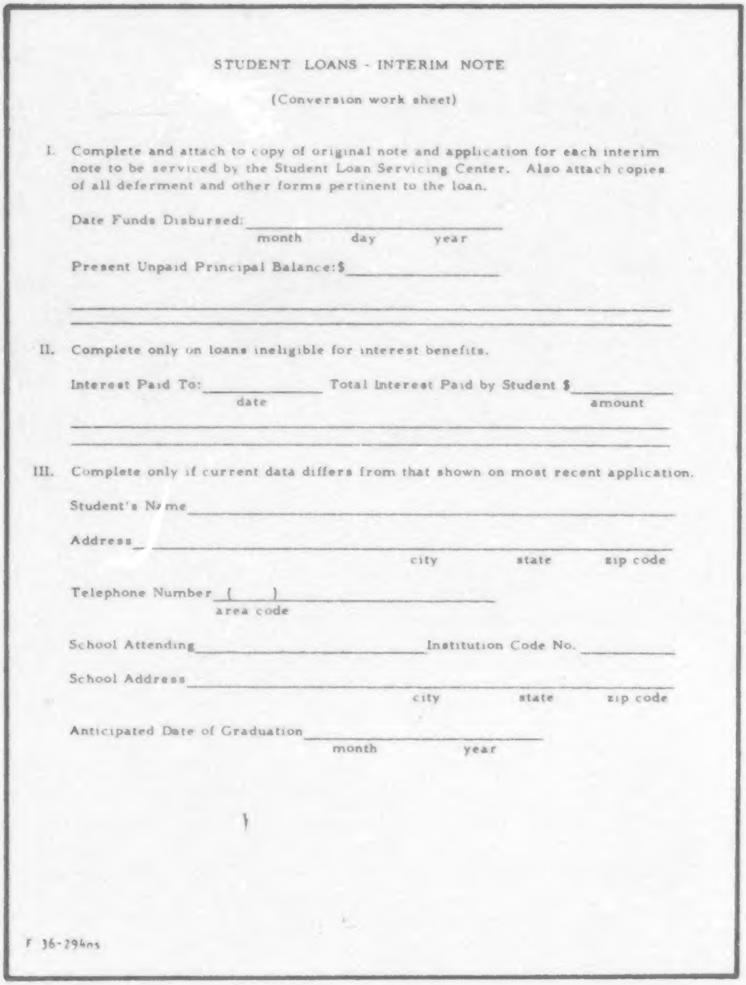
CONTENTS

Page

SECTION II - LOAN PROCESSING PROCEDURES

- A. Conversion of Existing Interim Loans 2-2
  - 1. Conversion Worksheet 2-1
  - 2. Notice to Student 2-4
- B. Conversion of Existing Payout Loans 2-6
  - 1. Conversion Worksheet 2-5
  - 2. Notice to Borrower 2-8
- C. Processing New Loan Applications - FISL 2-10
  - 1. Student Loan Application (OE Form 1154) 2-12
  - 2. Student Loan Application Supplement (OE Form 1260) 2-14
  - 3. Student Loan Application Supplement Instructions 2-16
  - 4. Promissory Note and Disclosure 2-20
  - 5. Insurance Fee 2-20
  - 6. Disbursement of Loan Proceeds 2-20
  - 7. Statement of Responsibilities 2-20
  - 8. Advice of Loan Disbursement 2-21

CONVERSION WORKSHEET 2-1



STUDENT LOANS - INTERIM NOTE

(Conversion work sheet)

I. Complete and attach to copy of original note and application for each interim note to be serviced by the Student Loan Servicing Center. Also attach copies of all deferment and other forms pertinent to the loan.

Date Funds Disbursed: ______________________ month day year

Present Unpaid Principal Balance:$______________

II. Complete only on loans ineligible for interest benefits.

Interest Paid To: __________ date Total Interest Paid by Student $__________ amount

III. Complete only if current data differs from that shown on most recent application.

Student's Name ______________________________

Address ______________________________ city state zip code

Telephone Number (   ) ______________ area code

School Attending ______________ Institution Code No. __________

School Address ______________________________ city state zip code

Anticipated Date of Graduation ______________ month year

F 36-294ns

To enable *the Service Center* to administer your current portfolio, a supply of conversion worksheets will be furnished for both interim and payout loans.

INTERIM LOANS

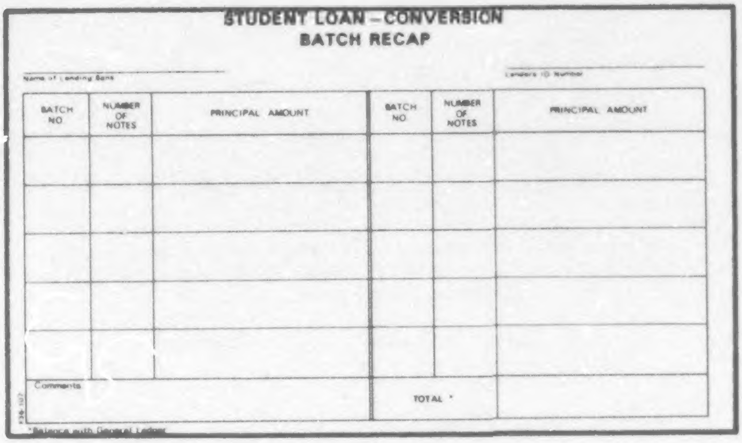
Complete an Interim Note Conversion Worksheet for each outstanding interim note. The form is self explanatory, however the following explanations might be helpful. (See example on facing page.)

Section I.	This must be completed and a copy of the note, application, and any pertinent papers attached.
Section II.	Complete only when the student is responsible for payment of the interest.
Section III.	Complete only when there has been a change in the student's status different from that shown on the application.

When worksheets are completed, submit them to the Student Loan Servicing Center in batches of approximately fifty notes. Identify each batch by number and enter the batch number, number of notes, and total principal amounts of each on the Recap form. (See example on page 2-3.) The total of all batches submitted should equal the total of interim student loans as carried on your general ledger.

The Service Center on it's first occasion to contact those students will enclose a notice informing them of this servicing arrangement. (See example A on page 2-4.) However, since this might not be for sometime, the lender is encouraged to inform them immediately. A suggested letter for this purpose is shown as example B on page 2-4 .

BATCH RECAP FORM



STUDENT LOAN – CONVERSION
BATCH RECAP

Name of Lending Bank

Lenders ID Number

BATCH NO	NUMBER OF NOTES	PRINCIPAL AMOUNT	BATCH NO	NUMBER OF NOTES	PRINCIPAL AMOUNT
Comments			TOTAL *		

*Balance with General Ledger

NOTICE TO STUDENT

EXAMPLE A:

IMPORTANT NOTICE!

Dear Student:

Your Bank has made arrangements with us, the Student Loan Servicing Center, to service your Federally Insured and/or United Student Aid Fund Student Loans. Our address is:

STUDENT LOAN SERVICING CENTER
P. O. BOX A-1577
MINNEAPOLIS, MINNESOTA 55480

From time to time you will be receiving correspondence from us relating to your loans. Please direct all correspondence to us at the above address or feel free to contact the Bank where you initially received your loans. Should you desire to contact us personally, our phone number is (612) 370-4035. We appreciate this opportunity to be of service to you and your Bank. Thank you.

Richard K. Engstrom, Manager
Student Loan Servicing Center

EXAMPLE B:

Dear Student:

We have made arrangements to have your ~~Federal~~ Insured student loan serviced by:

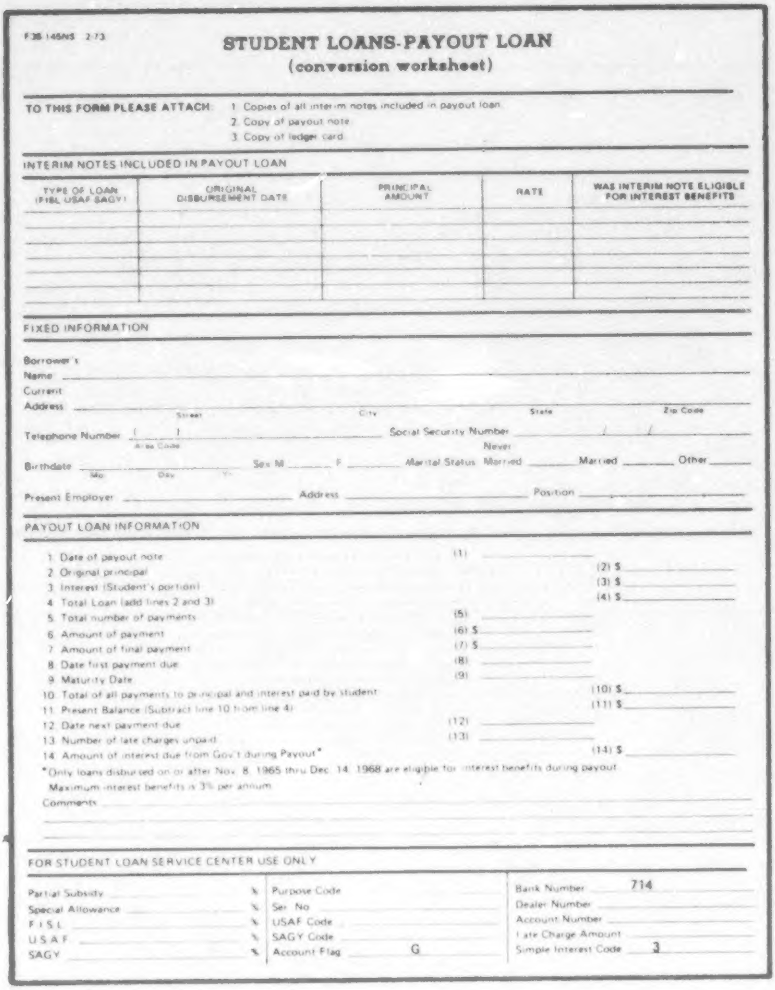
STUDENT LOAN SERVICING CENTER
P. O. BOX A-1577
MINNEAPOLIS, MINNESOTA 55480

When the occasion arises for them to correspond with you concerning your loan, please give them your full cooperation. Be sure to notify them promptly of any address change. If you have any questions at anytime, feel free to call ~~us or you may call~~ the Center. Their phone number is (612) 370-4035.

First State Bank Anytown

CONVERSION WORKSHEET

2-5



F35 145NS 2-73

STUDENT LOANS-PAYOUT LOAN
(conversion worksheet)

TO THIS FORM PLEASE ATTACH:
1. Copies of all interim notes included in payout loan
2. Copy of payout note
3. Copy of ledger card

INTERIM NOTES INCLUDED IN PAYOUT LOAN

TYPE OF LOAN (FISL USAF SAGY)	ORIGINAL DISBURSEMENT DATE	PRINCIPAL AMOUNT	RATE	WAS INTERIM NOTE ELIGIBLE FOR INTEREST BENEFITS

FIXED INFORMATION

Borrower's Name ____________________

Current Address __________ Street __________ City __________ State __________ Zip Code

Telephone Number ( ) Area Code __________ Social Security Number ____ / ____ / ____

Birthdate ____ Mo ____ Day ____ Yr Sex M ____ F ____ Marital Status Never Married ____ Married ____ Other ____

Present Employer __________ Address __________ Position __________

PAYOUT LOAN INFORMATION

1. Date of payout note (1) __________
2. Original principal (2) $ __________
3. Interest (Student's portion) (3) $ __________
4. Total Loan (add lines 2 and 3) (4) $ __________
5. Total number of payments (5) __________
6. Amount of payment (6) $ __________
7. Amount of final payment (7) $ __________
8. Date first payment due (8) __________
9. Maturity Date (9) __________
10. Total of all payments to principal and interest paid by student (10) $ __________
11. Present Balance (Subtract line 10 from line 4) (11) $ __________
12. Date next payment due (12) __________
13. Number of late charges unpaid (13) __________
14. Amount of interest due from Gov't during Payout* (14) $ __________

*Only loans disbursed on or after Nov. 8, 1965 thru Dec. 14, 1968 are eligible for interest benefits during payout. Maximum interest benefits is 3% per annum.

Comments ____________________

FOR STUDENT LOAN SERVICE CENTER USE ONLY

Partial Subsidy ____ %	Purpose Code ____	Bank Number 714
Special Allowance ____ %	Ser. No. ____	Dealer Number ____
F.I.S.L. ____ %	USAF Code ____	Account Number ____
U.S.A.F. ____ %	SAGY Code ____	Late Charge Amount ____
SAGY ____ %	Account Flag G	Simple Interest Code 3

PAYOUT LOANS

A conversion worksheet is prepared for each existing Student's Payout Installment Loan. Include all loans presently in a payout status.

In preparing the payout conversion worksheet, care must be taken to insure all information is current and accurate. It is necessary to attach a copy of each original interim note involved, a copy of the payout note, and a copy of the ledger card.

Submit to the Student Loan Servicing Center the completed worksheets and all copies with a transmittal letter in which is stated the number of worksheets being sent and the total of present balances (line 11).

The payout conversion worksheet is self explanatory, however, the following explanations of certain information may be helpful. (See example on facing page.)

INTERIM NOTES INCLUDED IN PAYOUT LOAN SECTION

List here each interim note involved in the payout loan showing type of loan, date funds were disbursed, original principal amount of each note, the rate of interest that applies to each note and if the note was eligible for interest benefits.

FIXED INFORMATION SECTION

Taken from the most current information available.

PAYOUT LOAN INFORMATION SECTION

1. Date of payout note - This is the date the interim notes were converted to payout loan and the date from which interest was computed.

2. Original principal - This is the total principal amount of all notes included in the payout loan.

3. Interest (student only) - This is the total interest due from the student during the entire term of the payout loan.

4. Total loan - This is the original principal amount plus the student's original portion of the interest.

5. Total number of payments - This is the original number of installments required to liquidate the payout installment loan.

6. Amount of payment - This is the amount of each installment payment to be paid by the borrower.

7. Amount of final payment - This is the amount of the final installment if different from the regular payment amount.

8. Date first payment due - This is the day, month, and year when the first payment was due.

9. Maturity date - This is the date the final installment is due.

10. Total of all payments to principal and interest paid by student - This is the total of payments student has made to date.

11. Present balance - This is the present gross balance outstanding on the installment loan.

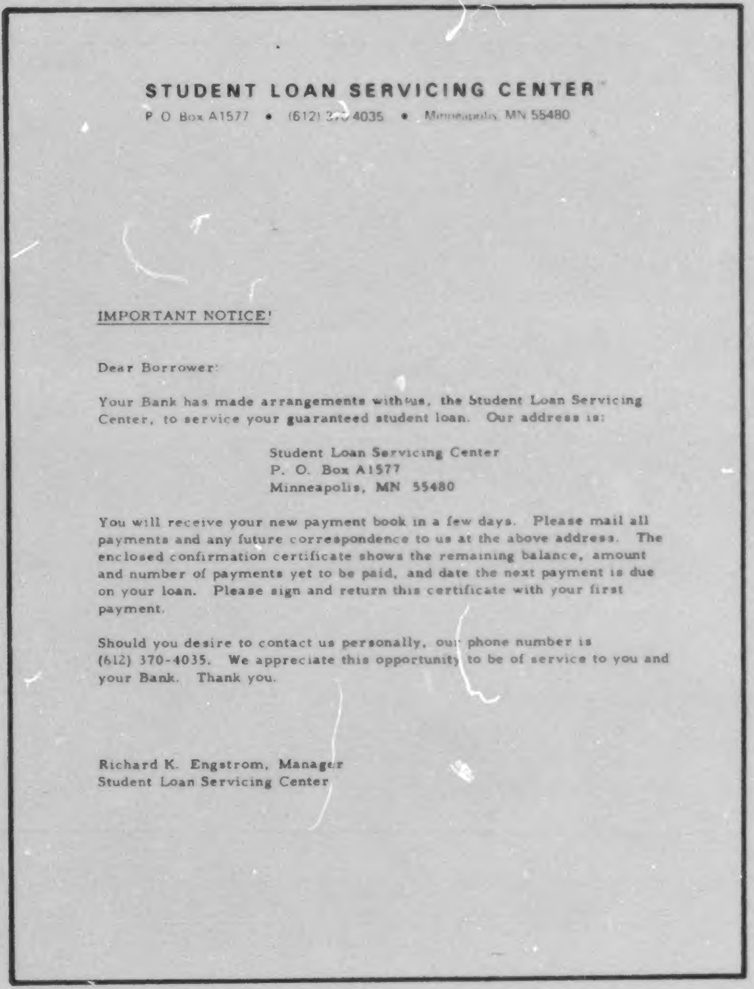
12. Date next payment due - This is the date the next payment is due or should have been due if the loan is now delinquent.

13. Number of late charges unpaid - This is the number of times late charges have been assessed and are unpaid.

14. Amount of interest paid by/or billed to government on this payout loan - This is the total amount of partial subsidy interest which has been paid by or billed to government on the installment loan.

Upon receipt of the Payout Loan Conversion Worksheets, the Service Center will enter each loan into it's Automated Installment Loan System. A Notice is prepared to notify the borrower of the arrangements made with the Student Loan Servicing Center. (See example on page 2-8.)

NOTICE TO BORROWER



STUDENT LOAN SERVICING CENTER
P O Box A1577 • (612) 370-4035 • Minneapolis, MN 55480

IMPORTANT NOTICE!

Dear Borrower:

Your Bank has made arrangements with us, the Student Loan Servicing Center, to service your guaranteed student loan. Our address is:

Student Loan Servicing Center
P. O. Box A1577
Minneapolis, MN 55480

You will receive your new payment book in a few days. Please mail all payments and any future correspondence to us at the above address. The enclosed confirmation certificate shows the remaining balance, amount and number of payments yet to be paid, and date the next payment is due on your loan. Please sign and return this certificate with your first payment.

Should you desire to contact us personally, our phone number is (612) 370-4035. We appreciate this opportunity to be of service to you and your Bank. Thank you.

Richard K. Engstrom, Manager
Student Loan Servicing Center

When accepting an application from a student for a new loan, be certain the application (OE Form 1154) and supplement (OE Form 1260) are completed in every respect.

STUDENT APPLICATION (OE FORM 1154) (See example on page 2-12.)

Part A - Identification Data (Completed by Student)

Part B - Financial Data (Completed by Student)

Statement of Adjusted Family Income - (Completed and signed by Student, Spouse, and parents as applicable)

Part C - Education Data (Completed by School)

Part D - Lending Bank Data (Completed by Lender)

IMPORTANT - Insert your Bank name as "Lending Institution" using the following mailing address:

℅ STUDENT LOAN SERVICING CENTER
P. O. BOX A-1577
MINNEAPOLIS, MINNESOTA 55480

APPLICATION SUPPLEMENT (OE FORM 1260) (See example on page 2-14.)

Part A - Affidavit (Completed by Student, signed and notarized)

Part B - Completed by the educational institution when student is applying for Federal interest benefits.

Part C - Completed by Lender (See instructions on page 2-17.)

IMPORTANT - Insert your Bank name as "Lending Institution" using the following mailing address:

℅ STUDENT LOAN SERVICING CENTER
P. O. BOX A-1577
MINNEAPOLIS, MINNESOTA 55480

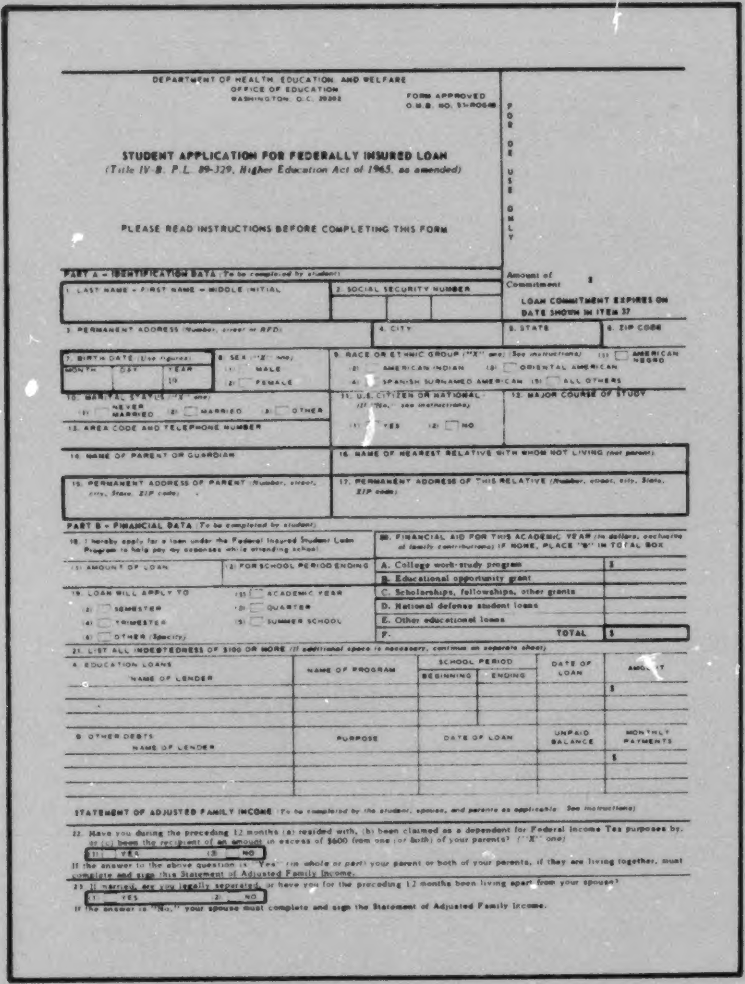
Forward properly completed application and supplement to Student Loan Servicing Center for review and processing through Office of Education for insurance commitment.

When application and supplement are completed, forward all three copies of application but only one copy of supplement to *the Service Center* for processing through Office of Education for insurance commitment. One copy of the Supplement is to be retained by the Lender and one be used as a tickler of loans pending.

IMPORTANT

Until revised forms are available combining the application and supplement, Form 1260 is required from all students.

STUDENT LOAN APPLICATION (OE FORM 1154)



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

FORM APPROVED
O.M.B. NO. 51-R0648

FOR OE USE ONLY

STUDENT APPLICATION FOR FEDERALLY INSURED LOAN
(Title IV-B, P.L. 89-329, Higher Education Act of 1965, as amended)

PLEASE READ INSTRUCTIONS BEFORE COMPLETING THIS FORM

Amount of Commitment $

LOAN COMMITMENT EXPIRES ON DATE SHOWN IN ITEM 37

PART A – IDENTIFICATION DATA *(To be completed by student)*

1. LAST NAME – FIRST NAME – MIDDLE INITIAL
2. SOCIAL SECURITY NUMBER
3. PERMANENT ADDRESS *(Number, street or RFD)*
4. CITY
5. STATE
6. ZIP CODE
7. BIRTH DATE *(Use figures)* MONTH DAY YEAR 19
8. SEX ("X" one) (1) ☐ MALE (2) ☐ FEMALE
9. RACE OR ETHNIC GROUP ("X" one) *(See instructions)* (1) ☐ AMERICAN NEGRO (2) ☐ AMERICAN INDIAN (3) ☐ ORIENTAL AMERICAN (4) ☐ SPANISH SURNAMED AMERICAN (5) ☐ ALL OTHERS
10. MARITAL STATUS ("X" one) (1) ☐ NEVER MARRIED (2) ☐ MARRIED (3) ☐ OTHER
11. U.S. CITIZEN OR NATIONAL *(If "No," see instructions)* (1) ☐ YES (2) ☐ NO
12. MAJOR COURSE OF STUDY
13. AREA CODE AND TELEPHONE NUMBER
14. NAME OF PARENT OR GUARDIAN
15. PERMANENT ADDRESS OF PARENT *(Number, street, city, State, ZIP code)*
16. NAME OF NEAREST RELATIVE WITH WHOM NOT LIVING *(not parent)*
17. PERMANENT ADDRESS OF THIS RELATIVE *(Number, street, city, State, ZIP code)*

PART B – FINANCIAL DATA *(To be completed by student)*

18. I hereby apply for a loan under the Federal Insured Student Loan Program to help pay my expenses while attending school
(1) AMOUNT OF LOAN
(2) FOR SCHOOL PERIOD ENDING

19. LOAN WILL APPLY TO (1) ☐ ACADEMIC YEAR (2) ☐ SEMESTER (3) ☐ QUARTER (4) ☐ TRIMESTER (5) ☐ SUMMER SCHOOL (6) ☐ OTHER *(Specify)*

20. FINANCIAL AID FOR THIS ACADEMIC YEAR *(In dollars, exclusive of family contributions)* IF NONE, PLACE "0" IN TOTAL BOX

A. College work-study program	$
B. Educational opportunity grant	
C. Scholarships, fellowships, other grants	
D. National defense student loans	
E. Other educational loans	
F. TOTAL	$

21. LIST ALL INDEBTEDNESS OF $100 OR MORE *(If additional space is necessary, continue on separate sheet)*

A. EDUCATION LOANS NAME OF LENDER	NAME OF PROGRAM	SCHOOL PERIOD		DATE OF LOAN	AMOUNT
		BEGINNING	ENDING		
					$

B. OTHER DEBTS NAME OF LENDER	PURPOSE	DATE OF LOAN	UNPAID BALANCE	MONTHLY PAYMENTS
				$

STATEMENT OF ADJUSTED FAMILY INCOME *(To be completed by the student, spouse, and parents as applicable. See instructions)*

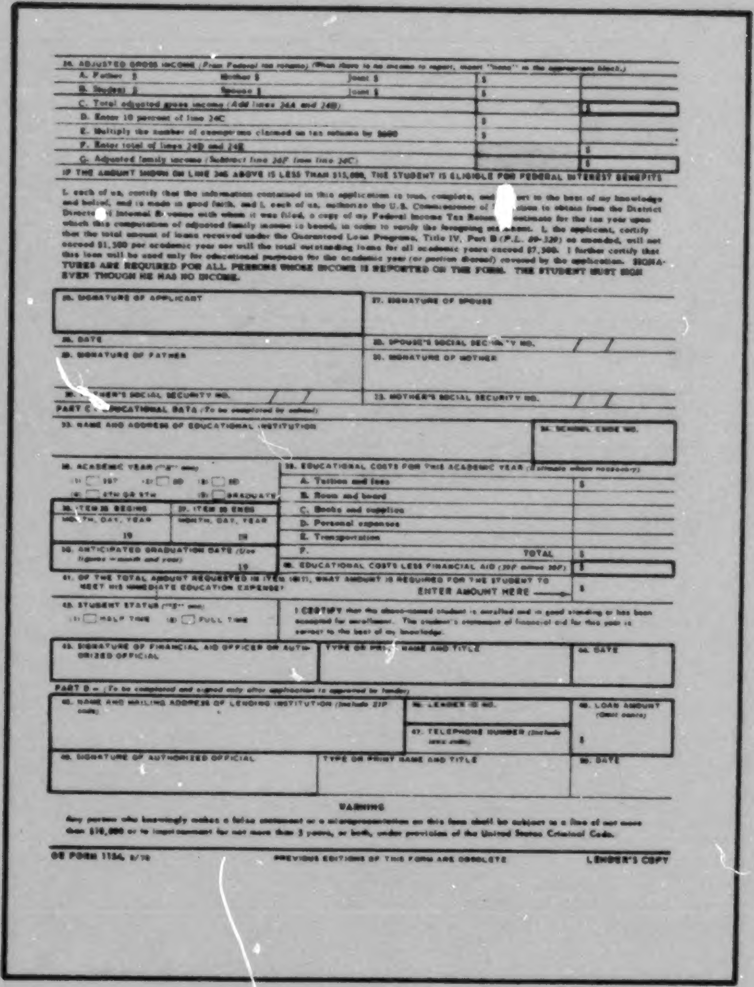
22. Have you during the preceding 12 months (a) resided with, (b) been claimed as a dependent for Federal Income Tax purposes by, or (c) been the recipient of an amount in excess of $600 from one (or both) of your parents? ("X" one)
(1) ☐ YES (2) ☐ NO

If the answer to the above question is "Yes" *(in whole or part)* your parent or both of your parents, if they are living together, must complete and sign this Statement of Adjusted Family Income.

23. If married, are you legally separated, or have you for the preceding 12 months been living apart from your spouse?
(1) ☐ YES (2) ☐ NO

If the answer is "No," your spouse must complete and sign the Statement of Adjusted Family Income.

STUDENT LOAN APPLICATION (OE FORM 1154)



24. ADJUSTED GROSS INCOME *(From Federal tax returns)* (When there is no income to report, insert "none" in the appropriate block.)

A. Father $ Mother $ Joint $	$	
B. Student $ Spouse $ Joint $	$	
C. Total adjusted gross income *(Add lines 24A and 24B)*		$
D. Enter 10 percent of line 24C	$	
E. Multiply the number of exemptions claimed on tax returns by $600	$	
F. Enter total of lines 24D and 24E		$
G. Adjusted family income *(Subtract line 24F from line 24C)*		$

IF THE AMOUNT SHOWN ON LINE 24G ABOVE IS LESS THAN $15,000, THE STUDENT IS ELIGIBLE FOR FEDERAL INTEREST BENEFITS

I, each of us, certify that the information contained in this application is true, complete, and correct to the best of my knowledge and belief, and is made in good faith, and I, each of us, authorize the U.S. Commissioner of Education to obtain from the District Director of Internal Revenue with whom it was filed, a copy of my Federal Income Tax Return or estimate for the tax year upon which this computation of adjusted family income is based, in order to verify the foregoing statement. I, the applicant, certify that the total amount of loans received under the Guaranteed Loan Programs, Title IV, Part B *(P.L. 89-329)* as amended, will not exceed $1,500 per academic year nor will the total outstanding loans for all academic years exceed $7,500. I further certify that this loan will be used only for educational purposes for the academic year *(or portion thereof)* covered by the application. SIGNATURES ARE REQUIRED FOR ALL PERSONS WHOSE INCOME IS REPORTED ON THIS FORM. THE STUDENT MUST SIGN EVEN THOUGH HE HAS NO INCOME.

26. SIGNATURE OF APPLICANT	27. SIGNATURE OF SPOUSE
28. DATE	29. SPOUSE'S SOCIAL SECURITY NO. / /
30. SIGNATURE OF FATHER	31. SIGNATURE OF MOTHER
32. FATHER'S SOCIAL SECURITY NO. / /	33. MOTHER'S SOCIAL SECURITY NO. / /

PART C — EDUCATIONAL DATA *(To be completed by school)*

33. NAME AND ADDRESS OF EDUCATIONAL INSTITUTION	34. SCHOOL CODE NO.

35. ACADEMIC YEAR ("X" one)

(1) ☐ 1ST (2) ☐ 2D (3) ☐ 3D

(4) ☐ 4TH OR 5TH (5) ☐ GRADUATE

36. ITEM 35 BEGINS MONTH, DAY, YEAR 19	37. ITEM 35 ENDS MONTH, DAY, YEAR 19

38. ANTICIPATED GRADUATION DATE *(Use figures — month and year)* 19

39. EDUCATIONAL COSTS FOR THIS ACADEMIC YEAR *(Estimate where necessary)*

A. Tuition and fees	$
B. Room and board	
C. Books and supplies	
D. Personal expenses	
E. Transportation	
F. TOTAL	$
40. EDUCATIONAL COSTS LESS FINANCIAL AID *(39F minus [illegible])*	$

41. OF THE TOTAL AMOUNT REQUESTED IN ITEM [illegible], WHAT AMOUNT IS REQUIRED FOR THE STUDENT TO MEET HIS IMMEDIATE EDUCATION EXPENSES? ENTER AMOUNT HERE ——→ $

42. STUDENT STATUS ("X" one)

(1) ☐ HALF TIME (2) ☐ FULL TIME

I CERTIFY that the above-named student is enrolled and in good standing or has been accepted for enrollment. The student's statement of financial aid for this year is correct to the best of my knowledge.

43. SIGNATURE OF FINANCIAL AID OFFICER OR AUTHORIZED OFFICIAL	TYPE OR PRINT NAME AND TITLE	44. DATE

PART D — *(To be completed and signed only after application is approved by lender)*

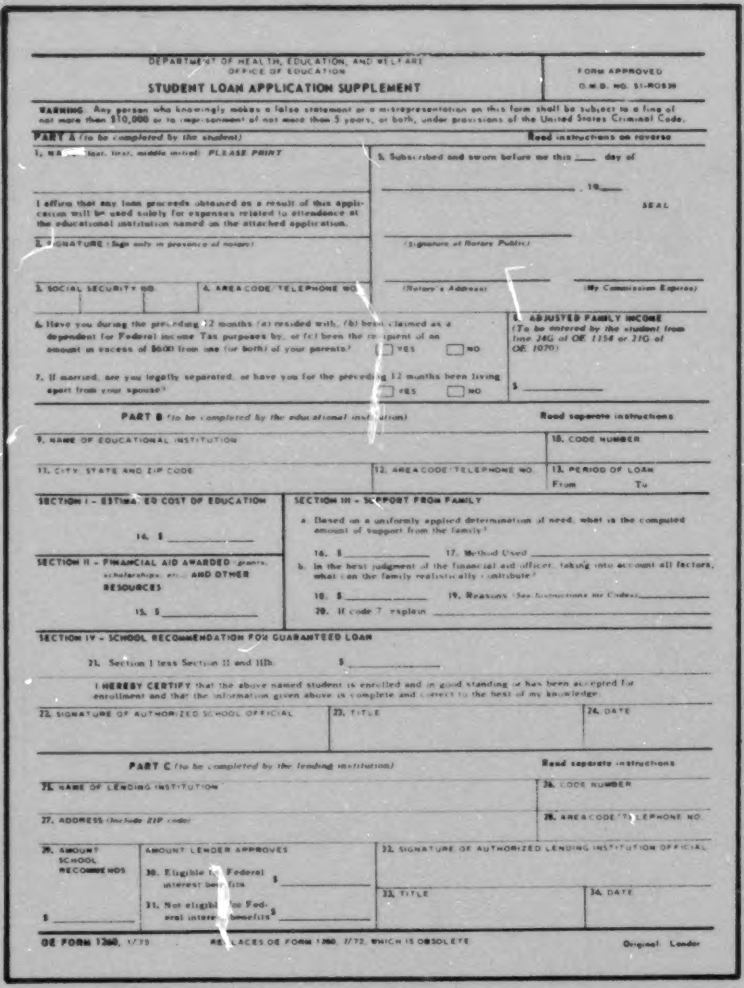
45. NAME AND MAILING ADDRESS OF LENDING INSTITUTION *(Include ZIP code)*	46. LENDER ID NO. 47. TELEPHONE NUMBER *(Include area code)*	48. LOAN AMOUNT *(Omit cents)* $
49. SIGNATURE OF AUTHORIZED OFFICIAL	TYPE OR PRINT NAME AND TITLE	50. DATE

WARNING

Any person who knowingly makes a false statement or a misrepresentation on this form shall be subject to a fine of not more than $10,000 or to imprisonment for not more than 5 years, or both, under provisions of the United States Criminal Code.

OE FORM 1154, 8/70 PREVIOUS EDITIONS OF THIS FORM ARE OBSOLETE LENDER'S COPY

LOAN APPLICATION SUPPLEMENT (OE FORM 1260)



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION

STUDENT LOAN APPLICATION SUPPLEMENT

FORM APPROVED
O.M.B. NO. 51-R0530

WARNING: Any person who knowingly makes a false statement or a misrepresentation on this form shall be subject to a fine of not more than $10,000 or to imprisonment of not more than 5 years, or both, under provisions of the United States Criminal Code.

PART A *(to be completed by the student)* — **Read instructions on reverse**

1. NAME (last, first, middle initial) *PLEASE PRINT*

I affirm that any loan proceeds obtained as a result of this application will be used solely for expenses related to attendance at the educational institution named on the attached application.

2. SIGNATURE (Sign only in presence of notary)

3. SOCIAL SECURITY NO.

4. AREA CODE/TELEPHONE NO.

5. Subscribed and sworn before me this ____ day of

________________________, 19___

SEAL

(Signature of Notary Public)

(Notary's Address)

(My Commission Expires)

6. Have you during the preceding 12 months (a) resided with, (b) been claimed as a dependent for Federal income Tax purposes by, or (c) been the recipient of an amount in excess of $600 from one (or both) of your parents? ☐ YES ☐ NO

7. If married, are you legally separated, or have you for the preceding 12 months been living apart from your spouse? ☐ YES ☐ NO

8. ADJUSTED FAMILY INCOME *(To be entered by the student from line 24G of OE 1154 or 21G of OE 1070)*

$ ____________

PART B *(to be completed by the educational institution)* — **Read separate instructions**

9. NAME OF EDUCATIONAL INSTITUTION

10. CODE NUMBER

11. CITY, STATE AND ZIP CODE

12. AREA CODE/TELEPHONE NO.

13. PERIOD OF LOAN From To

SECTION I - ESTIMATED COST OF EDUCATION

14. $ ____________

SECTION II - FINANCIAL AID AWARDED *(grants, scholarships, etc.)* **AND OTHER RESOURCES**

15. $ ____________

SECTION III - SUPPORT FROM FAMILY

a. Based on a uniformly applied determination of need, what is the computed amount of support from the family?

16. $ ____________ 17. Method Used ____________

b. In the best judgment of the financial aid officer, taking into account all factors, what can the family realistically contribute?

18. $ ____________ 19. Reasons (See Instructions for Codes) ____________

20. If code 7, explain ____________

SECTION IV - SCHOOL RECOMMENDATION FOR GUARANTEED LOAN

21. Section I less Section II and IIIb $ ____________

I HEREBY CERTIFY that the above named student is enrolled and in good standing or has been accepted for enrollment and that the information given above is complete and correct to the best of my knowledge.

22. SIGNATURE OF AUTHORIZED SCHOOL OFFICIAL

23. TITLE

24. DATE

PART C *(to be completed by the lending institution)* — **Read separate instructions**

25. NAME OF LENDING INSTITUTION

26. CODE NUMBER

27. ADDRESS *(Include ZIP code)*

28. AREA CODE/TELEPHONE NO.

29. AMOUNT SCHOOL RECOMMENDS $ ____________

AMOUNT LENDER APPROVES

30. Eligible for Federal interest benefits $ ____________

31. Not eligible for Federal interest benefits $ ____________

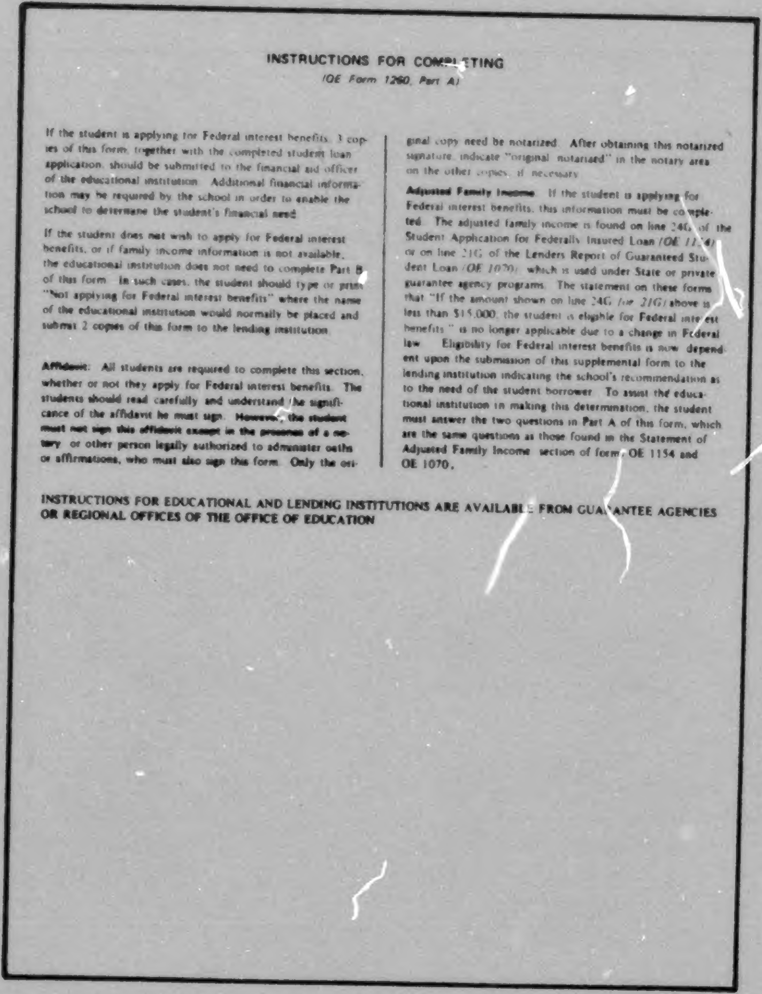
32. SIGNATURE OF AUTHORIZED LENDING INSTITUTION OFFICIAL

33. TITLE

34. DATE

OE FORM 1260, 1/73 REPLACES OE FORM 1260, 7/72, WHICH IS OBSOLETE — Original: Lender

LOAN APPLICATION SUPPLEMENT (OE FORM 1260)



INSTRUCTIONS FOR COMPLETING

(OE Form 1260, Part A)

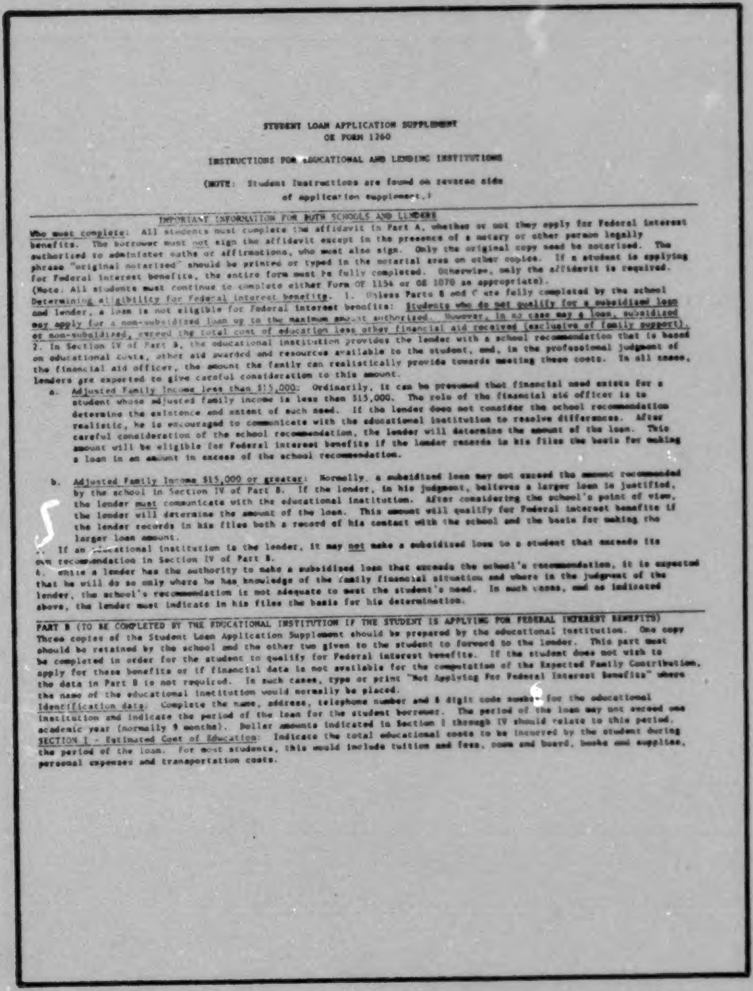
If the student is applying for Federal interest benefits, 3 copies of this form, together with the completed student loan application, should be submitted to the financial aid officer of the educational institution. Additional financial information may be required by the school in order to enable the school to determine the student's financial need.

If the student does not wish to apply for Federal interest benefits, or if family income information is not available, the educational institution does not need to complete Part B of this form. In such cases, the student should type or print "Not applying for Federal interest benefits" where the name of the educational institution would normally be placed and submit 2 copies of this form to the lending institution.

Affidavit: All students are required to complete this section, whether or not they apply for Federal interest benefits. The students should read carefully and understand the significance of the affidavit he must sign. **However, the student must not sign this affidavit except in the presence of a notary** or other person legally authorized to administer oaths or affirmations, who must also sign this form. Only the original copy need be notarized. After obtaining this notarized signature, indicate "original notarized" in the notary area on the other copies, if necessary.

Adjusted Family Income. If the student is applying for Federal interest benefits, this information must be completed. The adjusted family income is found on line 24G of the Student Application for Federally Insured Loan *(OE 1154)* or on line 21G of the Lenders Report of Guaranteed Student Loan *(OE 1070)*, which is used under State or private guarantee agency programs. The statement on these forms that "If the amount shown on line 24G *(or 21G)* above is less than $15,000, the student is eligible for Federal interest benefits." is no longer applicable due to a change in Federal law. Eligibility for Federal interest benefits is now dependent upon the submission of this supplemental form to the lending institution indicating the school's recommendation as to the need of the student borrower. To assist the educational institution in making this determination, the student must answer the two questions in Part A of this form, which are the same questions as those found in the Statement of Adjusted Family Income section of forms OE 1154 and OE 1070.

INSTRUCTIONS FOR EDUCATIONAL AND LENDING INSTITUTIONS ARE AVAILABLE FROM GUARANTEE AGENCIES OR REGIONAL OFFICES OF THE OFFICE OF EDUCATION



STUDENT LOAN APPLICATION SUPPLEMENT
OE FORM 1260

INSTRUCTIONS FOR EDUCATIONAL AND LENDING INSTITUTIONS

(NOTE: Student Instructions are found on reverse side
of application supplement.)

IMPORTANT INFORMATION FOR BOTH SCHOOLS AND LENDERS

Who must complete: All students must complete the affidavit in Part A, whether or not they apply for Federal interest benefits. The borrower must not sign the affidavit except in the presence of a notary or other person legally authorized to administer oaths or affirmations, who must also sign. Only the original copy need be notarized. The phrase "original notarized" should be printed or typed in the notarial area on other copies. If a student is applying for Federal interest benefits, the entire form must be fully completed. Otherwise, only the affidavit is required. (Note: All students must continue to complete either Form OE 1154 or OE 1070 as appropriate).

Determining eligibility for Federal interest benefits. 1. Unless Parts B and C are fully completed by the school and lender, a loan is not eligible for Federal interest benefits: Students who do not qualify for a subsidized loan may apply for a non-subsidized loan up to the maximum amount authorized. However, in no case may a loan, subsidized or non-subsidized, exceed the total cost of education less other financial aid received (exclusive of family support).

2. In Section IV of Part B, the educational institution provides the lender with a school recommendation that is based on educational costs, other aid awarded and resources available to the student, and, in the professional judgment of the financial aid officer, the amount the family can realistically provide towards meeting these costs. In all cases, lenders are expected to give careful consideration to this amount.

a. Adjusted Family Income less than $15,000: Ordinarily, it can be presumed that financial need exists for a student whose adjusted family income is less than $15,000. The role of the financial aid officer is to determine the existence and extent of such need. If the lender does not consider the school recommendation realistic, he is encouraged to communicate with the educational institution to resolve differences. After careful consideration of the school recommendation, the lender will determine the amount of the loan. This amount will be eligible for Federal interest benefits if the lender records in his files the basis for making a loan in an amount in excess of the school recommendation.

b. Adjusted Family Income $15,000 or greater: Normally, a subsidized loan may not exceed the amount recommended by the school in Section IV of Part B. If the lender, in his judgment, believes a larger loan is justified, the lender must communicate with the educational institution. After considering the school's point of view, the lender will determine the amount of the loan. This amount will qualify for Federal interest benefits if the lender records in his files both a record of his contact with the school and the basis for making the larger loan amount.

3. If an educational institution is the lender, it may not make a subsidized loan to a student that exceeds its own recommendation in Section IV of Part B.

4. While a lender has the authority to make a subsidized loan that exceeds the school's recommendation, it is expected that he will do so only where he has knowledge of the family financial situation and where in the judgment of the lender, the school's recommendation is not adequate to meet the student's need. In such cases, and as indicated above, the lender must indicate in his files the basis for his determination.

PART B (TO BE COMPLETED BY THE EDUCATIONAL INSTITUTION IF THE STUDENT IS APPLYING FOR FEDERAL INTEREST BENEFITS) Three copies of the Student Loan Application Supplement should be prepared by the educational institution. One copy should be retained by the school and the other two given to the student to forward to the lender. This part must be completed in order for the student to qualify for Federal interest benefits. If the student does not wish to apply for these benefits or if financial data is not available for the computation of the Expected Family Contribution, the data in Part B is not required. In such cases, type or print "Not Applying For Federal Interest Benefits" where the name of the educational institution would normally be placed.

Identification data: Complete the name, address, telephone number and 6 digit code number for the educational institution and indicate the period of the loan for the student borrower. The period of the loan may not exceed one academic year (normally 9 months). Dollar amounts indicated in Section I through IV should relate to this period.

SECTION I - Estimated Cost of Education: Indicate the total educational costs to be incurred by the student during the period of the loan. For most students, this would include tuition and fees, room and board, books and supplies, personal expenses and transportation costs.

SECTION II - Financial aid awarded and other resources: List only financial aid and other resources that are firm commitments and which apply to the period of the loan. Do not include assistance which may have been applied for, but not yet approved. Included should be all grants, scholarships, educational loans, and school-awarded jobs, including assistance under all federally sponsored programs of student financial aid. Do not include resources that are being considered in the determination of support from the family.

SECTION III - Support from Family - Subpart A: The same persons whose income was utilized in the determination of the Adjusted Family Income must be considered in the determination of the amount of family support available to help pay educational costs. This information may be obtained from Part A of this form as follows. If the student answers "yes" to the first question, he is considered to be a dependent student and the income and assets of the parents are to be considered. If he answers "no", he is an independent student and the income and assets of the parents are not taken into account. If the student is married and he answers "no" to the second question, the income and assets of the spouse are to be considered. If the answer is "yes", the spouse's income and assets are not taken into account. Indicate both the amount of the computed support from the family and the method of needs analysis used in making this determination. This amount should relate to the period of the loan. Methods approved by the Commissioner of Education for other federally supported financial aid programs are acceptable as well as the Alternate Income system, the American College Testing Program system, the College Scholarship Service system, the Income Tax system or any other method if it produces results which are, on the whole, similar to those which would be produced under the methods listed above. A needs analysis method promulgated by the Commissioner for independent students (as defined above) may alternatively be used for such students as may any other method which produces results which are, on the whole, similar to those which would be produced under any method which has been so promulgated.

SECTION III - Support from Family - Subpart B: The amount listed in Section IIIA is more meaningful when adjustments for the individual circumstances of the student are considered. The Financial Aid Officer is expected to exercise his professional judgment in each case and indicate in Section IIIB the amount that can be realistically expected to be contributed for educational costs over the period of the loan. He should take into account geographic differences in cost of living, actual summer earnings, family circumstances, and other factors not always equitably treated in a nationwide standardized computation. Indicate in the space provided the follow code(s) for the reasons used in reducing the amount of the computed family support: (1) Reduction in income, (2) death or disability of wage earner, (3) loss of job, (4) unanticipated medical or other extraordinary expenses, (5) non-liquid assets (e.g. home equity), (6) cannot meet expected contribution from income, (7) other. If code "(7) other" is used, briefly indicate in the space provided the basis for this reason. If necessary, provide this information on a separate page, copies of which should be attached both to the lender and guarantor copy of the form.

SECTION IV - School Recommendation: Enter the amount in Section IV according to the instructions stated. In other words subtract available resources (Section II and IIIB) from the Costs of Education (Section I). If a negative figure results, enter "0".

Signature of Authorized School Official: By signing this form, the educational institution is certifying that the student is enrolled and in good standing or has been accepted for enrollment. Good standing is determined by the institution. If the student is not in good standing, the form should not be completed or signed by the school official.

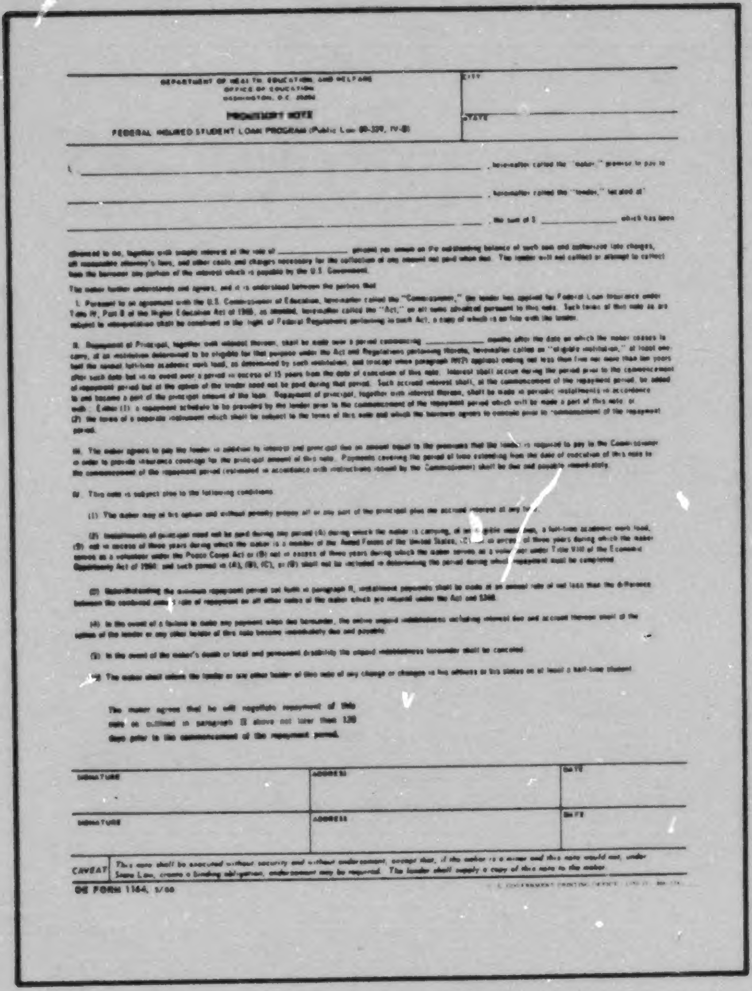
PART C (TO BE COMPLETED BY THE LENDING INSTITUTION IF THE STUDENT IS APPLYING FOR FEDERAL INTEREST BENEFITS)
The lender must complete all items in Part C. Lenders making federally insured loans should receive two copies of this form from the borrower. The lender must retain the original copy. The other copy should be attached to the yellow copy of the OE 1154 and mailed to the regional office of the Office of Education for the insurance commitment. Lenders making loans under State or private guarantee agency programs should follow procedures established by the agency.

In all cases, the lender should indicate the amount the school recommends, the amount the lender approves and (according to the standards set forth above) whether or not the loan qualifies for Federal interest benefits.

If the amount of the loan is equal to or less than the amount recommended by the school in Section IV of Part B, the entire amount qualifies for Federal interest benefits. If the amount of the loan exceeds the school recommendation, the entire amount will qualify for Federal interest benefits provided the lender indicates in his records the basis for exceeding the school's recommendtion (and, if the student's adjusted family income is $15,000 or greater, the lender's records also indicate that he has contacted the school). However, if the loan amount exceeds the school's recommendation, and the lender has no basis for exceeding this recommendation, only the amount recommended by the school would qualify for the interest benefits. In such cases, indicate on the form the amount that qualifies and the amount that does not qualify for the Federal interest benefits.

An authorized official of the lender must sign the form, indicating his title and telephone number and the date in the spaces provided. If there is no school recommendation, Parts B and C need not be completed as the student cannot qualify for Federal interest benefits.

PROMISSORY NOTE



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

PROMISSORY NOTE

FEDERAL INSURED STUDENT LOAN PROGRAM (Public Law 89-329, IV-B)

CITY

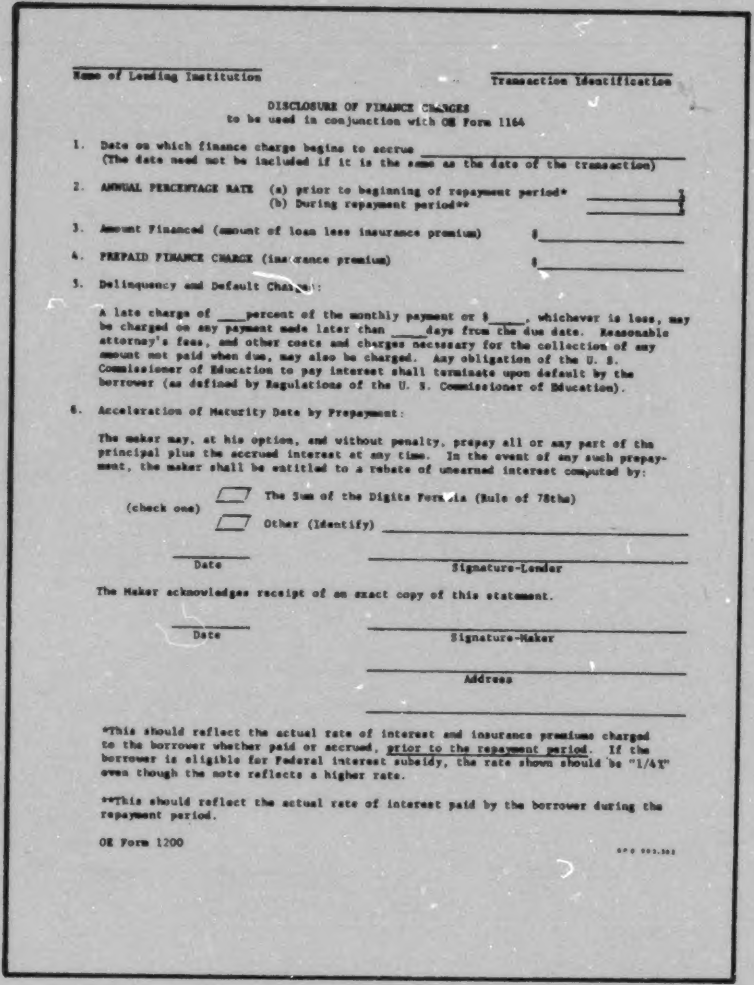
STATE

The maker agrees that he will negotiate repayment of this note as outlined in paragraph II above not later than 120 days prior to the commencement of the repayment period.

SIGNATURE	ADDRESS	DATE
SIGNATURE	ADDRESS	DATE

CAVEAT: *This note shall be executed without security and without endorsement, except that, if the maker is a minor and this note would not, under State Law, create a binding obligation, endorsement may be required. The lender shall supply a copy of this note to the maker.*

OE FORM 1164, 5/66



Name of Lending Institution

Transaction Identification

DISCLOSURE OF FINANCE CHARGES
to be used in conjunction with OE Form 1164

1. Date on which finance charge begins to accrue ____________________
(The date need not be included if it is the same as the date of the transaction)

2. ANNUAL PERCENTAGE RATE (a) prior to beginning of repayment period* ________%
(b) During repayment period** ________%

3. Amount Financed (amount of loan less insurance premium) $____________

4. PREPAID FINANCE CHARGE (insurance premium) $____________

5. Delinquency and Default Charges:

A late charge of ____percent of the monthly payment or $_____, whichever is less, may be charged on any payment made later than _____days from the due date. Reasonable attorney's fees, and other costs and charges necessary for the collection of any amount not paid when due, may also be charged. Any obligation of the U. S. Commissioner of Education to pay interest shall terminate upon default by the borrower (as defined by Regulations of the U. S. Commissioner of Education).

6. Acceleration of Maturity Date by Prepayment:

The maker may, at his option, and without penalty, prepay all or any part of the principal plus the accrued interest at any time. In the event of any such prepayment, the maker shall be entitled to a rebate of unearned interest computed by:

(check one)
☐ The Sum of the Digits Formula (Rule of 78ths)
☐ Other (Identify) ____________________

Date

Signature-Lender

The Maker acknowledges receipt of an exact copy of this statement.

Date

Signature-Maker

Address

*This should reflect the actual rate of interest and insurance premiums charged to the borrower whether paid or accrued, prior to the repayment period. If the borrower is eligible for Federal interest subsidy, the rate shown should be "1/4%" even though the note reflects a higher rate.

**This should reflect the actual rate of interest paid by the borrower during the repayment period.

OE Form 1200

PROMISSORY NOTE (OE FORM 1164) AND DISCLOSURE (OE FORM 1200)

Upon receipt of endorsed application from Office of Education, the Service Center will prepare the Promissory Note and Disclosure of Finance Charges for the amount of the insurance commitment and forward to lending bank for disbursement of loan proceeds. (See example on pages 2-18 & 2-19.)

INSURANCE FEE

Applicable insurance fee will be calculated by *the Service Center*. The amount of the insurance fee will be shown in Item #4 on the Disclosure of Finance Charges.

DISBURSEMENT OF LOAN PROCEEDS

The lending bank will secure proper signatures of student and parent where applicable on both the note and disclosure and disburse loan proceeds. The Office of Education encourages lenders to send the check to the school along with the green copy of the application.

> IMPORTANT - The amount to be disbursed is the "Amount Financed" (Amount of loan less insurance premium) as shown in Item #3 on the Disclosure.

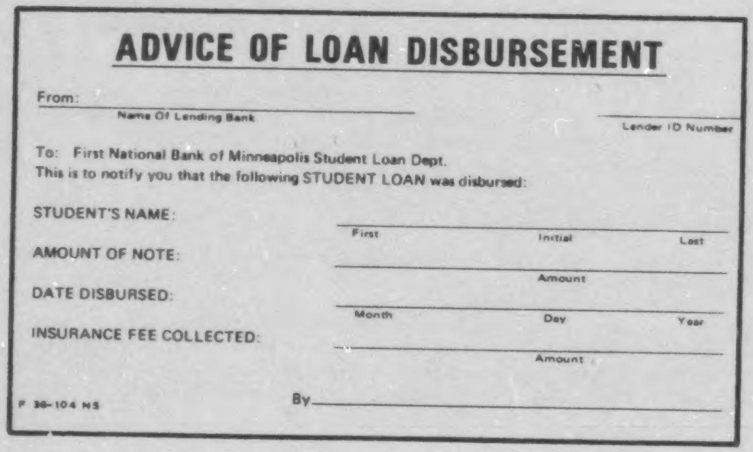
If the amount to be disbursed is different than the "Amount Financed" as shown on the disclosure of finance charges as prepared, it will be necessary for you to prepare a new promissory note and disclosure re-calculating the insurance fee accordingly.

STATEMENT OF RESPONSIBILITIES

Federal law requires that lenders exercise reasonable care and diligence, both in the making and collection of loans. The lender has a major responsibility to be sure that it's students are made fully aware of the seriousness of this obligation and to counsel students wisely on establishing good credit habits. Having each student read and sign a statement similar to the one illustrated on Page 2-22 is recommended. You may purchase a supply of this form prepared in duplicate from the Service Center at a cost of .06 each in lots of 50 or more.

ADVICE OF LOAN DISBURSEMENT

After loan proceeds have been disbursed, advise *the Service Center* of disbursement by completing an "Advice of Loan Disbursement" form for each promissory note. (See example below.) Upon receipt of this advice, *the Service Center* will assign the student loan an account number and enter the transaction into it's system for servicing.



ADVICE OF LOAN DISBURSEMENT

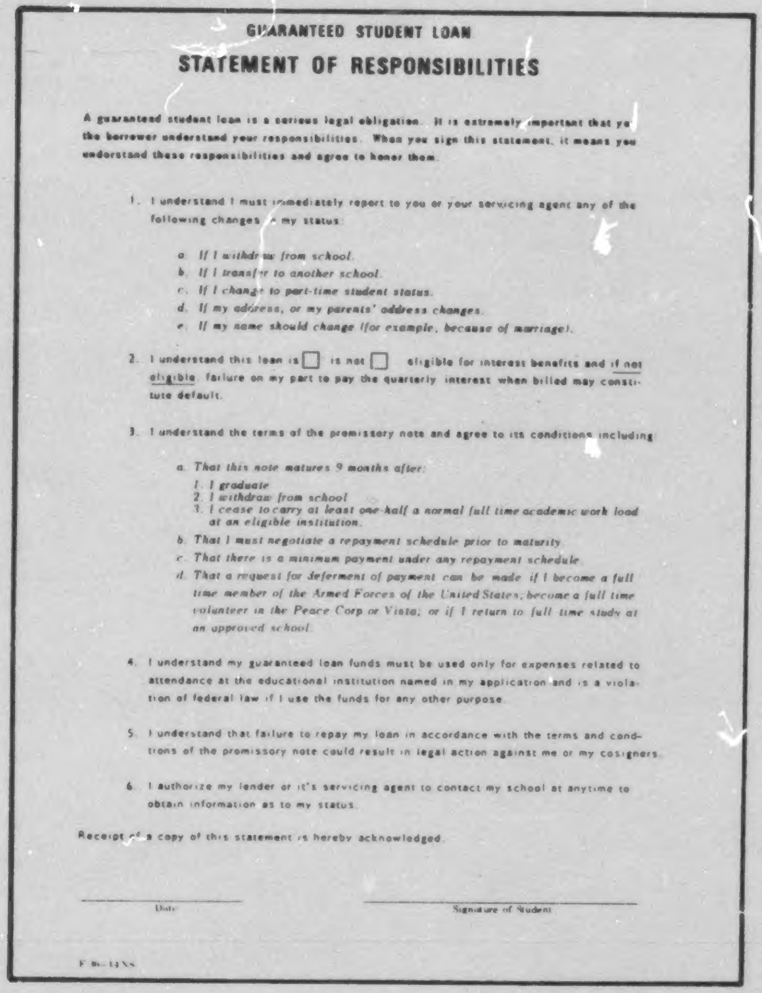
From: ______________________ ______________
Name Of Lending Bank — Lender ID Number

To: First National Bank of Minneapolis Student Loan Dept.
This is to notify you that the following STUDENT LOAN was disbursed:

STUDENT'S NAME: ______________ (First / Initial / Last)
AMOUNT OF NOTE: ______________ (Amount)
DATE DISBURSED: ______________ (Month / Day / Year)
INSURANCE FEE COLLECTED: ______________ (Amount)

F 36-104 NS
By ______________________

STATEMENT OF RESPONSIBILITIES 2-22



GUARANTEED STUDENT LOAN

STATEMENT OF RESPONSIBILITIES

A guaranteed student loan is a serious legal obligation. It is extremely important that you the borrower understand your responsibilities. When you sign this statement, it means you understand these responsibilities and agree to honor them.

1. I understand I must immediately report to you or your servicing agent any of the following changes in my status:

   a. *If I withdraw from school.*
   b. *If I transfer to another school.*
   c. *If I change to part-time student status.*
   d. *If my address, or my parents' address changes.*
   e. *If my name should change (for example, because of marriage).*

2. I understand this loan is ☐ is not ☐ eligible for interest benefits and if not eligible, failure on my part to pay the quarterly interest when billed may constitute default.

3. I understand the terms of the promissory note and agree to its conditions including:

   a. *That this note matures 9 months after:*
      1. *I graduate*
      2. *I withdraw from school*
      3. *I cease to carry at least one-half a normal full time academic work load at an eligible institution.*
   b. *That I must negotiate a repayment schedule prior to maturity.*
   c. *That there is a minimum payment under any repayment schedule.*
   d. *That a request for deferment of payment can be made if I become a full time member of the Armed Forces of the United States; become a full time volunteer in the Peace Corp or Vista; or if I return to full time study at an approved school.*

4. I understand my guaranteed loan funds must be used only for expenses related to attendance at the educational institution named in my application and is a violation of federal law if I use the funds for any other purpose.

5. I understand that failure to repay my loan in accordance with the terms and conditions of the promissory note could result in legal action against me or my cosigners.

6. I authorize my lender or it's servicing agent to contact my school at anytime to obtain information as to my status.

Receipt of a copy of this statement is hereby acknowledged.

____________________	______________________________
Date	Signature of Student

F 86-13XS

CONTENTS

Page

SECTION III - SERVICING - INTERIM LOANS

A. Notice of Loan Disbursement 3-2

B. Lenders Manifest - FISL 3-4

C. Monthly Transaction Statement 3-7

D. Interest Billing 3-10

  1. Interest Billing Report 3-10

  2. Government Interest Billing-Eligible Loans 3-14

  3. Special Allowance 3-14

  4. Student Interest Billing-Ineligible Loans 3-16

E. Student Status Letter 3-19

F. Loans Maturing Report 3-22

G. Student's Letter of Maturity 3-26

H. Cross Reference List 3-28

I. Trial Balance 3-30

J. Recap Report 3-36

K. Monetary & Status Transactions 3-38

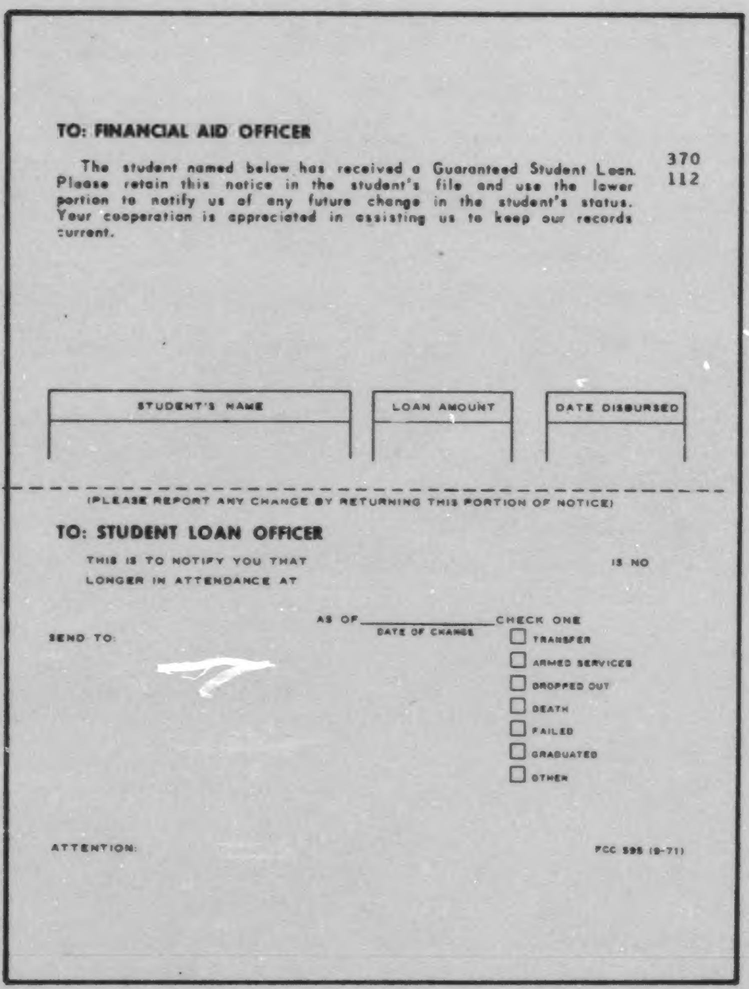
L. Paid Interim Note Report 3-40

M. Interim Loan Past Due Report 3-42

N. New Loan Report 3-44

NOTICE OF LOAN DISBURSEMENT

3-1



TO: FINANCIAL AID OFFICER

The student named below has received a Guaranteed Student Loan. Please retain this notice in the student's file and use the lower portion to notify us of any future change in the student's status. Your cooperation is appreciated in assisting us to keep our records current.

370
112

STUDENT'S NAME	LOAN AMOUNT	DATE DISBURSED

(PLEASE REPORT ANY CHANGE BY RETURNING THIS PORTION OF NOTICE)

TO: STUDENT LOAN OFFICER

THIS IS TO NOTIFY YOU THAT IS NO LONGER IN ATTENDANCE AT

AS OF ____________ CHECK ONE
DATE OF CHANGE

SEND TO:

☐ TRANSFER
☐ ARMED SERVICES
☐ DROPPED OUT
☐ DEATH
☐ FAILED
☐ GRADUATED
☐ OTHER

ATTENTION:

FCC 595 (9-71)

NOTICE OF LOAN DISBURSEMENT

The Notice of Loan Disbursement is prepared by *the Service Center* on each new loan to inform the school of the loan granted. (See example on facing page.)

The Notice is divided into two sections: The first section reports the loan information to the school; the second section is used by the school to report any change in the student's status.

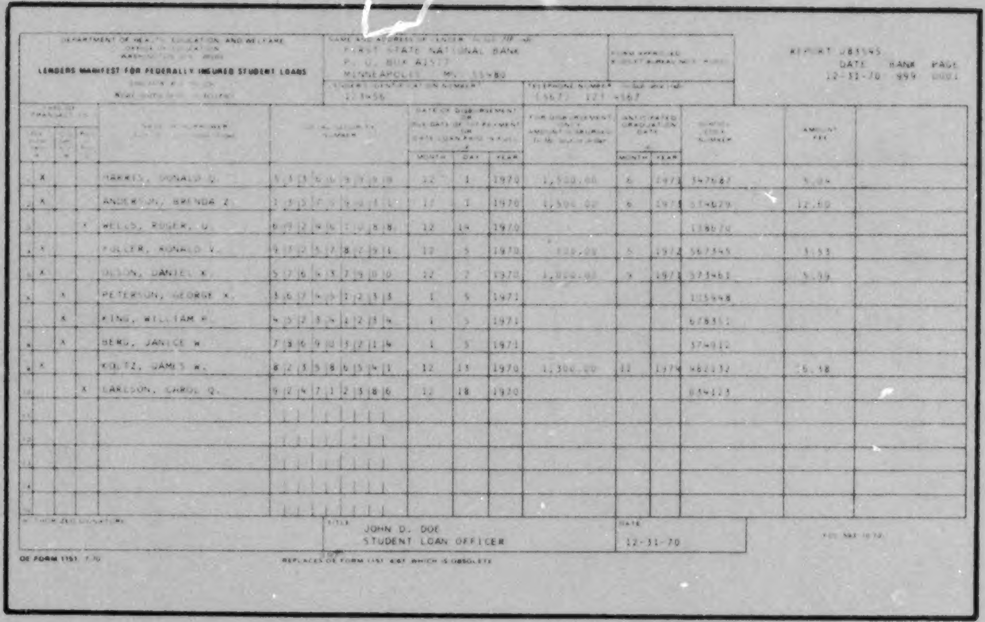
Following is a detailed description of the Notice:

The top portion contains the name and address of the college.

STUDENT NAME	- The full name of the student.
LOAN AMOUNT	- The principal amount of the loan.
DATE DISBURSED	- The date on which the loan was granted.

The bottom portion of the form contains information about the student.

THIS IS TO NOTIFY YOU THAT	- To the right of this statement is printed the student's name.
IS NO LONGER IN ATTENDANCE AT	- To the right of statement is printed the school name. The computer completion of the above sentence makes it a meaningful sentence.
AS OF	- To be completed by the school in the event a student status changes.
CHECK ONE	- Completed by the school to indicate the reason for the notification.
SEND TO	- The name and address of the lender at its Minneapolis Post Office address.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

LENDERS MANIFEST FOR FEDERALLY INSURED STUDENT LOANS

NAME AND ADDRESS OF LENDER (Include ZIP code)
FIRST STATE NATIONAL BANK
P. O. BOX A1577
MINNEAPOLIS MN. 55480

LENDER IDENTIFICATION NUMBER
123456

TELEPHONE NUMBER
(567) 123-4567

REPORT U83545
DATE BANK PAGE
12-31-70 999 0001

TYPE OF TRANSACTION			NAME OF BORROWER	SOCIAL SECURITY NUMBER	DATE OF DISBURSEMENT OR DUE DATE OF 1ST PAYMENT OR DATE LOAN PAID IN FULL			FOR DISBURSEMENT ONLY AMOUNT DISBURSED	ANTICIPATED GRADUATION DATE		SCHOOL CODE NUMBER	AMOUNT FEE	
					MONTH	DAY	YEAR		MONTH	YEAR			
X			HARRIS, DONALD D.	5 3 3 6 6 9 7 9 8	12	1	1970	1,500.00	6	1971	347682	6.04	
X			ANDERSON, BRENDA Z.	[illegible]	12	1	1970	1,500.00	6	1971	574629	12.60	
		X	WELLS, ROGER, D.	6 9 2 4 6 1 0 8 8	12	14	1970				138670		
X			FULLER, RONALD V.	9 7 2 5 7 8 2 9 1	12	5	1970	500.00	5	1972	567345	3.53	
X			OLSON, DANIEL K.	5 7 6 6 5 7 9 0 0	12	7	1970	1,000.00	9	1971	573461	5.55	
	X		PETERSON, GEORGE K.	3 6 7 4 5 1 2 3 3	1	5	1971				115448		
	X		KING, WILLIAM P.	4 5 2 3 4 1 2 3 4	1	5	1971				678351		
	X		BERG, JANICE W.	7 8 6 9 0 3 2 1 4	1	5	1971				374912		
X			KOLTZ, JAMES W.	8 2 3 5 8 6 5 4 1	12	13	1970	1,300.00	11	1974	462132	5.38	
		X	CARLSON, CAROL Q.	9 2 4 7 1 2 3 8 6	12	18	1970				654123		

AUTHORIZED SIGNATURE

TITLE
JOHN D. DOE
STUDENT LOAN OFFICER

DATE
12-31-70

OE FORM 1151, 7/70

REPLACES OE FORM 1151, 4/67 WHICH IS OBSOLETE

The Lender's Manifest which is prepared for the Lending Bank by First Minneapolis as agent is forwarded to the Office of Education notifying them of new loans disbursed, paid or converted to a payout status. The Manifest is produced monthly when there is any activity to report on a 2-Part pre-printed form. The original is for the Office of Education, the copy is retained by *the Service Center*. The copy retained shows the amount of fee collected and is used as a check off list when remitting payment of insurance fee to Government. (See example on facing page.)

Following is a detailed description of each field.

Name and Address of Lender

The name and address of Lending Bank

Lender's Identification Number

The number assigned to the Lending Bank by the Office of Education.

Transaction Code Number

Disb - A	- An "X" in this column indicates a new disbursement of funds to a student.
Conv - B	- An "X" in this column indicates the loan (s) have been converted to a payout status.
Paid - C	- An "X" in this column indicates a loan has been paid in full by student.

Note: The system can only report paid loans if the loan was paid while in an interim status.

Name of Borrower

The student's name, last name first, first name and initial last.

Social Security Number

The student's social security number.

Date of Disbursement
or
Due Date of First Payment
or
Date Loan Paid in Full

This date works in conjunction with the transaction code number. When an "X" appears in DISB - A the date reported is the date of disbursement. When an "X" appears in CONV - B the date reported is the date of the first payment on a payout loan. When an "X" appears in PAID - C the date reported is the date the loan was paid in full.

Amount Disbursed

Applies to new loans only. The principal amount of the loan.

Anticipated Graduation Date

The date the student is expected to graduate.

School Code Number

This is the six digit number which is assigned to each eligible school by the Office of Education. This number is found in Part C, Item #34 on the Student Application for Federally Insured Loan (OE Form 1154).

Amount Fee

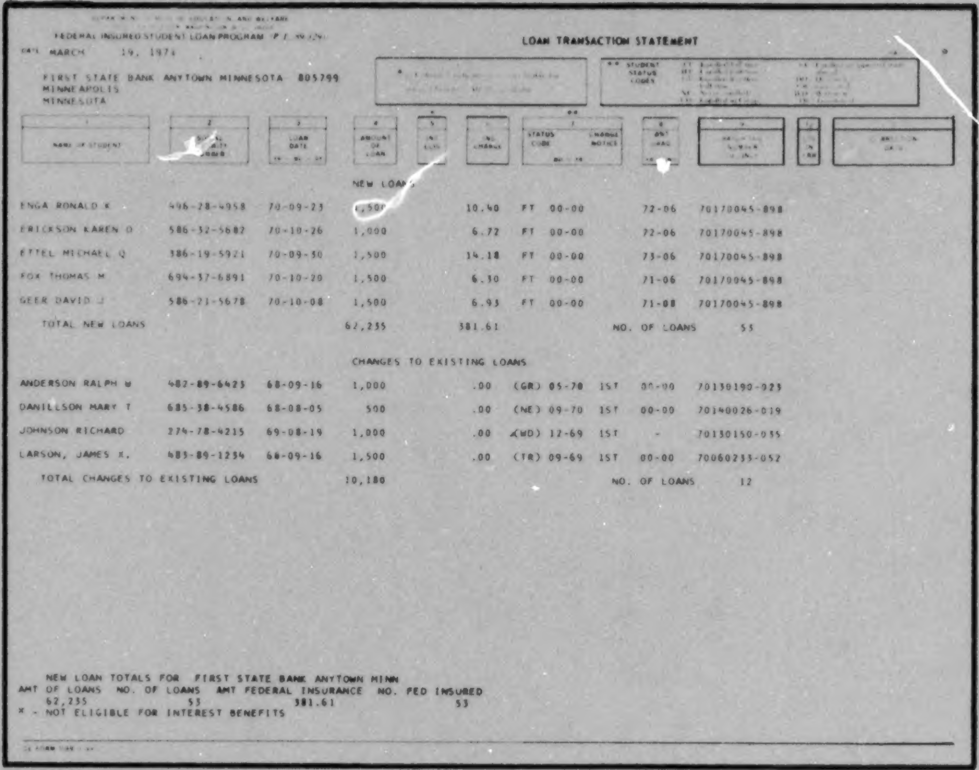
The amount of fee paid by the student.

Comments

Blank space provided for internal operational comments by the user.

MONTHLY TRANSACTION STATEMENT

3-6



FEDERAL INSURED STUDENT LOAN PROGRAM

DATE MARCH 19, 1974

FIRST STATE BANK ANYTOWN MINNESOTA 805799
MINNEAPOLIS
MINNESOTA

LOAN TRANSACTION STATEMENT

** STUDENT STATUS CODES

1 NAME OF STUDENT	2 SOCIAL SECURITY NUMBER	3 LOAN DATE	4 AMOUNT OF LOAN	5	6 INS. CHARGE	7 STATUS CODE	7 CHANGE NOTICE	8 ANT. GRAD.	9 NUMBER
			NEW LOANS						
ENGA RONALD K	496-28-4958	70-09-23	1,500		10.40	FT 00-00		72-06	70170045-898
ERICKSON KAREN O	586-32-5682	70-10-26	1,000		6.72	FT 00-00		72-06	70170045-898
ETTEL MICHAEL Q	386-19-5921	70-09-30	1,500		14.18	FT 00-00		73-06	70170045-898
FOX THOMAS M	694-37-6891	70-10-20	1,500		6.30	FT 00-00		71-06	70170045-898
GEER DAVID J	586-21-5678	70-10-08	1,500		6.93	FT 00-00		71-08	70170045-898
TOTAL NEW LOANS			62,235		381.61		NO. OF LOANS		53
			CHANGES TO EXISTING LOANS						
ANDERSON RALPH W	482-89-6425	68-09-16	1,000		.00	(GR) 05-70	1ST	00-00	70130190-923
DANIELSON MARY T	685-38-4586	68-08-05	500		.00	(NE) 09-70	1ST	00-00	70140026-019
JOHNSON RICHARD	274-78-4215	69-08-19	1,000		.00	✗(WD) 12-69	1ST	-	70130150-035
LARSON, JAMES X.	483-89-1234	68-09-16	1,500		.00	(TR) 09-69	1ST	00-00	70060233-052
TOTAL CHANGES TO EXISTING LOANS			10,180				NO. OF LOANS		12

NEW LOAN TOTALS FOR FIRST STATE BANK ANYTOWN MINN

AMT OF LOANS	NO. OF LOANS	AMT FEDERAL INSURANCE	NO. FED INSURED
62,235	53	381.61	53

X - NOT ELIGIBLE FOR INTEREST BENEFITS

MONTHLY TRANSACTION STATEMENT

The Monthly Transaction Statement is received by First Minneapolis acting as Agent for the Lender from the Office of Education. (See example on page # 3-6.) *The Service Center* audits new loan section of statement for completeness and accuracy, and pays insurance fees billed, charging Lenders Account with advice to lender. *The Service Center* will conduct necessary follow up reflected in changes to existing loan section. A copy of the monthly statement will be sent to the lending bank for its file.

The following is a detailed description of each category and the format of the Monthly Transaction Statement.

STATEMENT CATEGORIES

A. New Loans: Disbursement has been reported on a Lender's Manifest (Form OE 1151) and processed by the Office of Education.

B. Changes to Existing Loans: The particular item which has been changed will appear in parenthesis (). Student status changes will appear in Column 7. Corrections to the student's status should be reported on this statement as outlined in the Reconcilement Procedure. There will be no insurance charge for changes reported in this section.

C. Deleted Loans: Loans which were assigned to your institution in error. This will include duplicate loans.

D. Totals: There are subtotals for number and dollar amount of loans at the end of the "New Loan" section and the "Change to Existing Loans" section. At the end of the statement are "Total New Loans" summaries, listing number of new loans, dollar amount of new loans, and insurance premiums due on those loans.

EXPLANATION OF THE FORMAT OF THE MONTHLY LOAN TRANSACTION STATEMENT

Column (1) Name of Student -- Listed in alphabetical sequence, last name first.

Column (2) Social Security Number -- Office of Education control number.

Column (3) Loan Date -- Date loan was disbursed.

Column (4) Amount of Loan -- Principal amount disbursed on loan date.

Column (5) Interest Eligibility -- Asterisk indicates student not eligible for interest benefits.

Column (6) Insurance Charge -- Indicates the insurance premium due on the loan.

Column (7) Status Code -- Indicates student's school status (see codes on statement).

Change Notice/Mo-Yr -- Date that the status of the student changed.

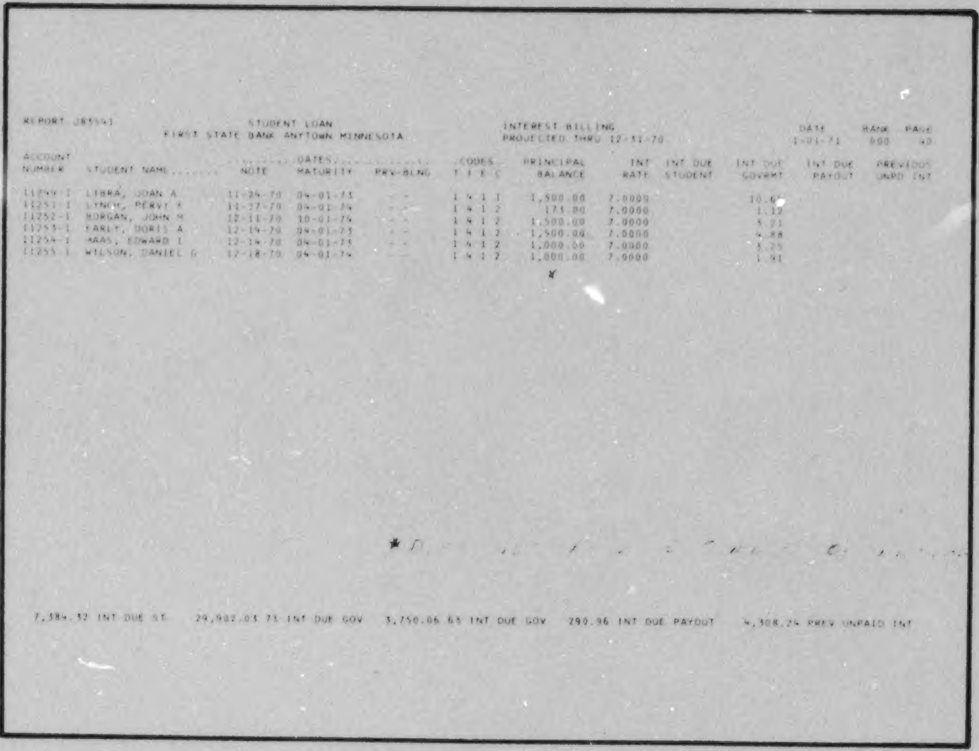
Column (8) Anticipated Graduation Date -- Date student expects to graduate.

Column (9) Batch Number -- For OE use only.

Column (10) Column in Error -- To be used by lender to indicate any errors in Columns 1-8 for that particular loan.

Column (11) Correction Data -- To be used for inserting the correct data noted as being in error in Column 10.

INTEREST BILLING REPORT



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REPORT J83541              STUDENT LOAN                        INTEREST BILLING                           DATE     BANK  PAGE
                  FIRST STATE BANK ANYTOWN MINNESOTA           PROJECTED THRU 12-31-70                   1-01-71   000    40

ACCOUNT                       ...........DATES..............  .CODES.  PRINCIPAL     INT   INT DUE   INT DUE   INT DUE   PREVIOUS
NUMBER   STUDENT NAME.......     NOTE    MATURITY   PRV-BLNG  T I E C    BALANCE    RATE   STUDENT    GOVRMT    PAYOUT   UNPD INT

11249-1  LIBRA, JOAN A         11-24-70  04-01-73     - -     1 4 1 1   1,500.00   7.0000              10.6[illegible]
11251-1  LYNCH, PERRY F        11-27-70  04-01-74     - -     1 4 1 2     175.00   7.0000               1.12
11252-1  BORGAN, JOHN M        12-11-70  10-01-74     - -     1 4 1 2   1,500.00   7.0000               5.21
11253-1  EARLY, DORIS A        12-14-70  04-01-73     - -     1 4 1 2   1,500.00   7.0000               4.88
11254-1  HAAS, EDWARD I        12-14-70  04-01-73     - -     1 4 1 2   1,000.00   7.0000               3.25
11255-1  WILSON, DANIEL G      12-18-70  04-01-74     - -     1 4 1 2   1,000.00   7.0000               1.91



 7,384.32 INT DUE ST    29,902.03 73 INT DUE GOV   3,750.06 65 INT DUE GOV   290.96 INT DUE PAYOUT    4,308.24 PREV UNPAID INT
```

INTEREST BILLING REPORT

The Service Center will maintain a daily accrual of interest due on each student loan and produce a quarterly "Interest Billing Report", a copy of which is sent to the lending bank. (See example on facing page.) The Interest Billing report shows the interest to be billed to either the Office of Education or student for each note. *The Service Center* will bill the government or student for interest due.

Following is a detailed description of each field on the Interest Billing Report. A copy of this report will be forwarded to Lending Bank for its records.

Key Information

Account Number	The number assigned by *the Service Center* to the student's loan.
Student Name	The first 24 characters, starting with the last name.

Dates

Note	The original date of the loan's disbursement.
Maturity	The date the loan is to be converted to payout.
Prv. Blng	(Previous Billing.) The date of the previous interest billing.

Codes

T - (Type of Loan, USAF or FISL.)

I - (Interest Calculation Code.)

E - (Eligible or Ineligible Code.)

C - (Converted to Payout Code.)

Principal Balance

The amount of the loan.

Interest Rate

The rate by which interest is accrued.

Interest Due From Student

Amount of interest due from the ineligible student. An amount in this field indicates an interest billing notice to the student was prepared.

Interest Due From Government

Amount of interest due from the government. This amount is maintained by First Minneapolis and automatically credited to accrued interest when payment is received.

Interest Due Payout

Amount of interest due from government on payout loans, where applicable.

Previous Unpaid Interest

Accrued interest previously billed but not paid.

Totals

Int. Due St. - (Interest Due From Student)

Total amount of interest due from student.

7% Int. Due Gov. - (7% Interest Due Government)

Total amount of interest due on 7% notes.

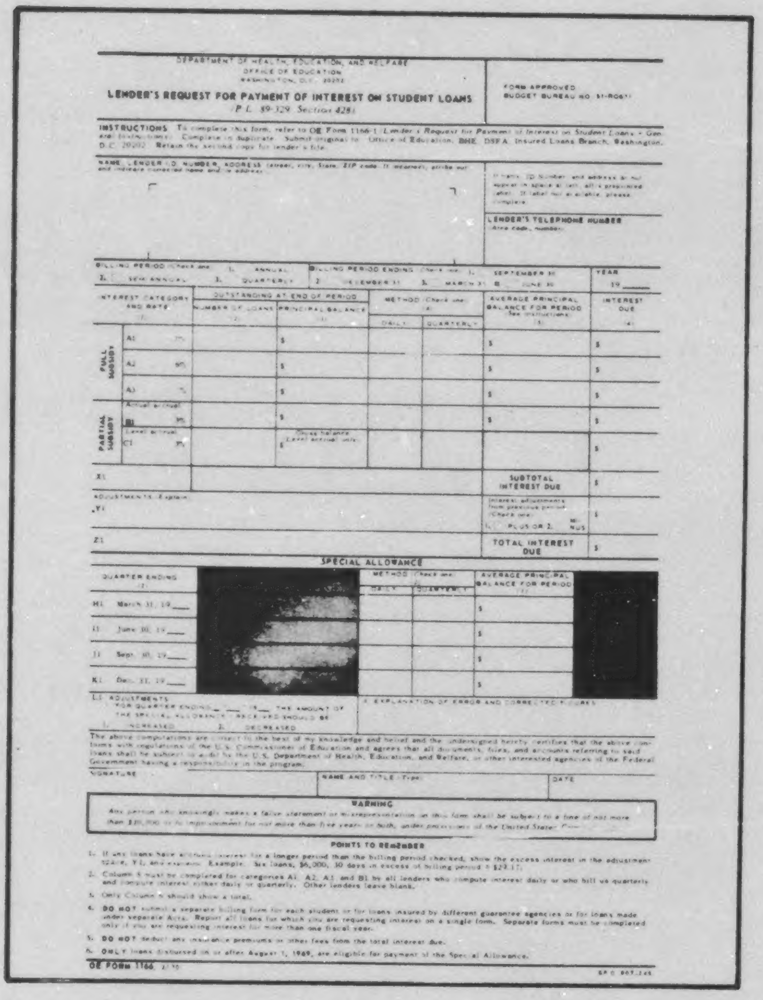
6% Int. Due Gov. - (6% Interest Due Government)

Total amount of interest due on 6% notes.

Int. Due Payout - Total Amount of Payout Interest Billed.

Prev. Unpaid Int. - (Previous Unpaid Interest)

Total amount of interest previously billed but not collected.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

LENDER'S REQUEST FOR PAYMENT OF INTEREST ON STUDENT LOANS
(P.L. 89-329 Section 428)

FORM APPROVED
BUDGET BUREAU NO. 51-R0671

INSTRUCTIONS To complete this form, refer to OE Form 1166-1 (*Lender's Request for Payment of Interest on Student Loans - General Instructions*). Complete in duplicate. Submit original to: Office of Education, BHE, DSFA, Insured Loans Branch, Washington, D.C. 20202. Retain the second copy for lender's file.

NAME, LENDER I.D. NUMBER, ADDRESS (street, city, State, ZIP code. If incorrect, strike out and indicate corrected name and/or address.)

If name, ID Number, and address do not appear in space at left, affix preprinted label. If label not available, please complete.

LENDER'S TELEPHONE NUMBER (Area code, number)

BILLING PERIOD (Check one) 1. ANNUAL 2. SEMI-ANNUAL 3. QUARTERLY

BILLING PERIOD ENDING (Check one) 1. SEPTEMBER 30 2. DECEMBER 31 3. MARCH 31 4. JUNE 30

YEAR 19____

	INTEREST CATEGORY AND RATE (1)	OUTSTANDING AT END OF PERIOD: NUMBER OF LOANS (2)	OUTSTANDING AT END OF PERIOD: PRINCIPAL BALANCE (3)	METHOD (Check one) (4): DAILY	METHOD (Check one) (4): QUARTERLY	AVERAGE PRINCIPAL BALANCE FOR PERIOD (See instructions) (5)	INTEREST DUE (6)
FULL SUBSIDY	A1 7%		$			$	$
	A2 8%		$			$	$
	A3 %		$			$	$
PARTIAL SUBSIDY	Actual accrual B1 8%		$			$	$
	Level accrual C1 7%		$ (Gross balance Level accrual only)				$
X1						SUBTOTAL INTEREST DUE	$
ADJUSTMENTS (Explain) Y1						Interest adjustments from previous period (Check one) 1. PLUS OR 2. MINUS	$
Z1						TOTAL INTEREST DUE	$

SPECIAL ALLOWANCE

QUARTER ENDING (1)		METHOD (Check one): DAILY	METHOD (Check one): QUARTERLY	AVERAGE PRINCIPAL BALANCE FOR PERIOD	
H1 March 31, 19___	[redacted]			$	[redacted]
I1 June 30, 19___	[redacted]			$	[redacted]
J1 Sept. 30, 19___	[redacted]			$	[redacted]
K1 Dec. 31, 19___	[redacted]			$	[redacted]

L1 ADJUSTMENTS
FOR QUARTER ENDING __ ___ 19__ THE AMOUNT OF THE SPECIAL ALLOWANCE RECEIVED SHOULD BE
1. INCREASED 2. DECREASED

EXPLANATION OF ERROR AND CORRECTED FIGURES

The above computations are correct to the best of my knowledge and belief and the undersigned hereby certifies that the above conforms with regulations of the U.S. Commissioner of Education and agrees that all documents, files, and accounts referring to said loans shall be subject to audit by the U.S. Department of Health, Education, and Welfare, or other interested agencies of the Federal Government having a responsibility in the program.

SIGNATURE

NAME AND TITLE (Type)

DATE

WARNING

Any person who knowingly makes a false statement or misrepresentation on this form shall be subject to a fine of not more than $10,000 or to imprisonment for not more than five years or both, under provisions of the United States Code.

POINTS TO REMEMBER

1. If any loans have accrued interest for a longer period than the billing period checked, show the excess interest in the adjustment space, Y1, and explain. Example: Six loans, $6,000, 30 days in excess of billing period = $23.17.
2. Column 5 must be completed for categories A1, A2, A3, and B1 by all lenders who compute interest daily or who bill us quarterly and compute interest either daily or quarterly. Other lenders leave blank.
3. Only Column 6 should show a total.
4. **DO NOT** submit a separate billing form for each student or for loans insured by different guarantee agencies or for loans made under separate Acts. Report all loans for which you are requesting interest on a single form. Separate forms must be completed only if you are requesting interest for more than one fiscal year.
5. **DO NOT** deduct any insurance premiums or other fees from the total interest due.
6. **ONLY** loans disbursed on or after August 1, 1969, are eligible for payment of the Special Allowance.

OE FORM 1166, 2/70

GPO 907-245

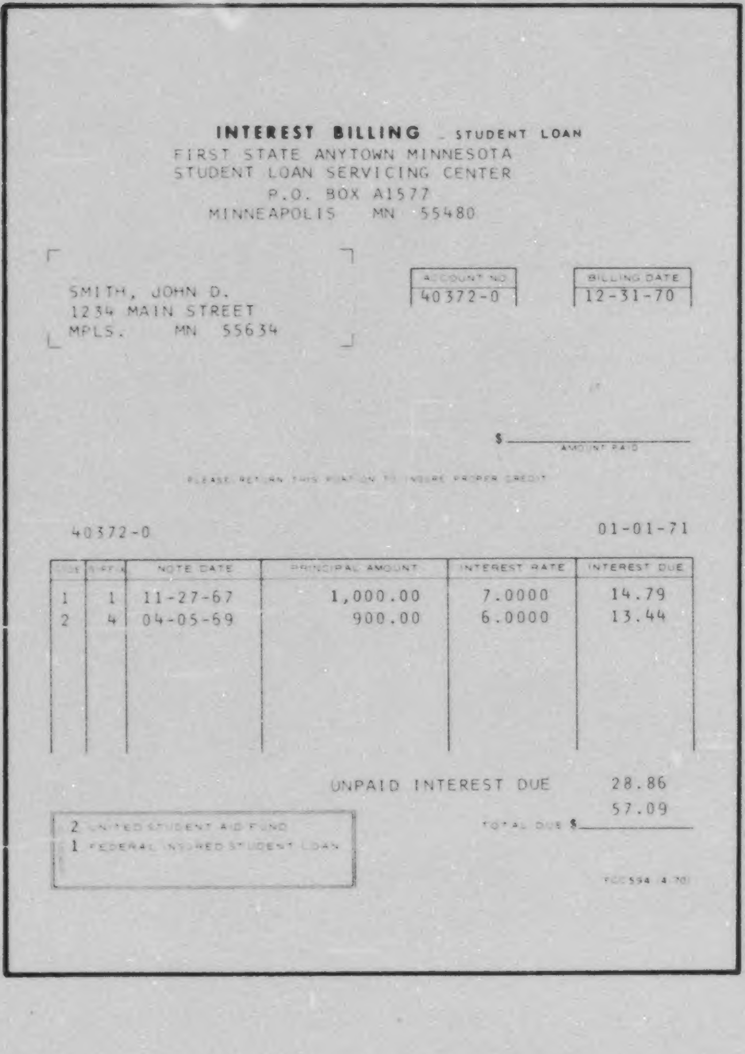
LENDER'S REQUEST FOR PAYMENT OF INTEREST ON STUDENT LOANS

First Minneapolis acting as Agent for Lending Bank, will gather necessary totals and complete the interest billing report forwarding it to the Office of Education requesting payment of interest due. A copy of this report will be sent to Lending Bank for their records. (See example on facing page.) Interest payment when received by First Minneapolis will be credited to Lending Bank's account with advice to Lender.

SPECIAL ALLOWANCE

All Student Loans disbursed on or after August 1, 1969 are eligible for a "Special Allowance" payment from the Office of Education. The Service Center will maintain a control total on loans which qualify for the Special Allowance payment.

Acting as Agent for the Lending Bank, First Minneapolis will complete the Special Allowance section and forward to the Office of Education for payment on a quarterly basis.



INTEREST BILLING – STUDENT LOAN
FIRST STATE ANYTOWN MINNESOTA
STUDENT LOAN SERVICING CENTER
P.O. BOX A1577
MINNEAPOLIS MN 55480

SMITH, JOHN D.
1234 MAIN STREET
MPLS. MN 55634

ACCOUNT NO. 40372-0

BILLING DATE 12-31-70

$ ____________ AMOUNT PAID

PLEASE RETURN THIS PORTION TO INSURE PROPER CREDIT

40372-0 01-01-71

CODE	[illegible]	NOTE DATE	PRINCIPAL AMOUNT	INTEREST RATE	INTEREST DUE
1	1	11-27-67	1,000.00	7.0000	14.79
2	4	04-05-69	900.00	6.0000	13.44

UNPAID INTEREST DUE 28.86

57.09

TOTAL DUE $____________

2 UNITED STUDENT AID FUND
1 FEDERAL INSURED STUDENT LOAN

FCC594 (4-70)

On loans ineligible for interest benefits from government, First Minneapolis acting as Agent for Lender will produce quarterly an "Interest Billing Notice" which will be sent directly to student requesting payment. (See example on facing page.) Interest payments when received by *the Service Center* will be credited to Lenders account with advice to Lender.

The notice consists of two parts:

1. Name and address section
2. Loan information section

The name and address section contains the student's name and address, account number, etc., and serves as a turnaround document to accept payments of interest from student.

The loan information section details each loan, and is the student's copy for his records.

Following is a detailed description of each field on the notice.

NAME AND ADDRESS SECTION

Contained within the boxed area is the student's name and address.

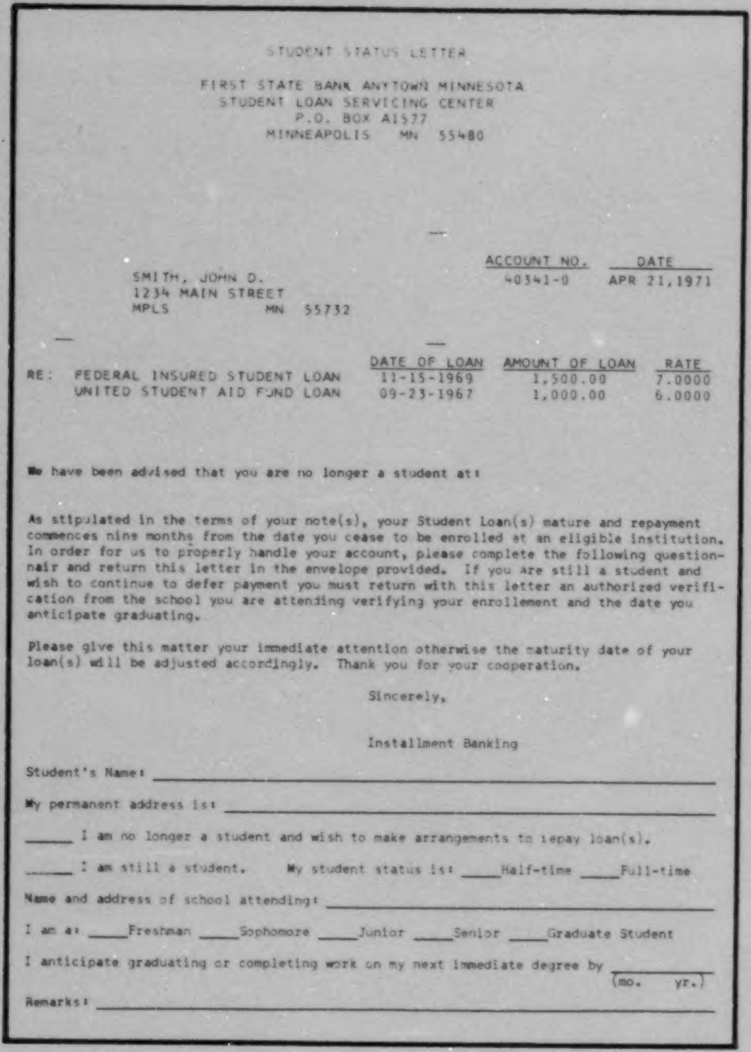
ACCOUNT NO.	-	(Account Number) the number assigned to the student's loans.
BILLING DATE	-	The date of billing. The date interest is accrued through.
Note	-	Is always of a quarter date.
AMOUNT PAID	-	Space provided for the student to enter the amount sent.

LOAN INFORMATION SECTION

CODE	-	Code indicates whether the loan is a USAF or FISL. (Codes are annotated on the form.)

SUFFIX	- The suffix number of the student's loan.
NOTE DATE	- The original date of the loan.
PRINCIPAL AMOUNT	- The amount of the loan or the balance, depending on debit or credit action.
INTEREST RATE	- The rate by which interest is accrued.
INTEREST DUE	- The amount of interest accrued since the previous billing. Interest is calculated through the billing date only.
"UNPAID INTEREST DUE"	- A computer printed comment that prints directly above total due if any previously billed interest was not paid.
TOTAL DUE	- The total accumulation of interest due on all notes for a given student.

STUDENT STATUS LETTER



STUDENT STATUS LETTER

FIRST STATE BANK ANYTOWN MINNESOTA
STUDENT LOAN SERVICING CENTER
P.O. BOX A1577
MINNEAPOLIS MN 55480

ACCOUNT NO.	DATE
40341-0	APR 21,1971

SMITH, JOHN D.
1234 MAIN STREET
MPLS MN 55732

RE:	DATE OF LOAN	AMOUNT OF LOAN	RATE
FEDERAL INSURED STUDENT LOAN	11-15-1969	1,500.00	7.0000
UNITED STUDENT AID FUND LOAN	09-23-1967	1,000.00	6.0000

We have been advised that you are no longer a student at:

As stipulated in the terms of your note(s), your Student Loan(s) mature and repayment commences nine months from the date you cease to be enrolled at an eligible institution. In order for us to properly handle your account, please complete the following questionnair and return this letter in the envelope provided. If you are still a student and wish to continue to defer payment you must return with this letter an authorized verification from the school you are attending verifying your enrollement and the date you anticipate graduating.

Please give this matter your immediate attention otherwise the maturity date of your loan(s) will be adjusted accordingly. Thank you for your cooperation.

Sincerely,

Installment Banking

Student's Name: ____________________

My permanent address is: ____________________

_____ I am no longer a student and wish to make arrangements to repay loan(s).

_____ I am still a student. My student status is: ____Half-time ____Full-time

Name and address of school attending: ____________________

I am a: ____Freshman ____Sophomore ____Junior ____Senior ____Graduate Student

I anticipate graduating or completing work on my next immediate degree by ________ (mo. yr.)

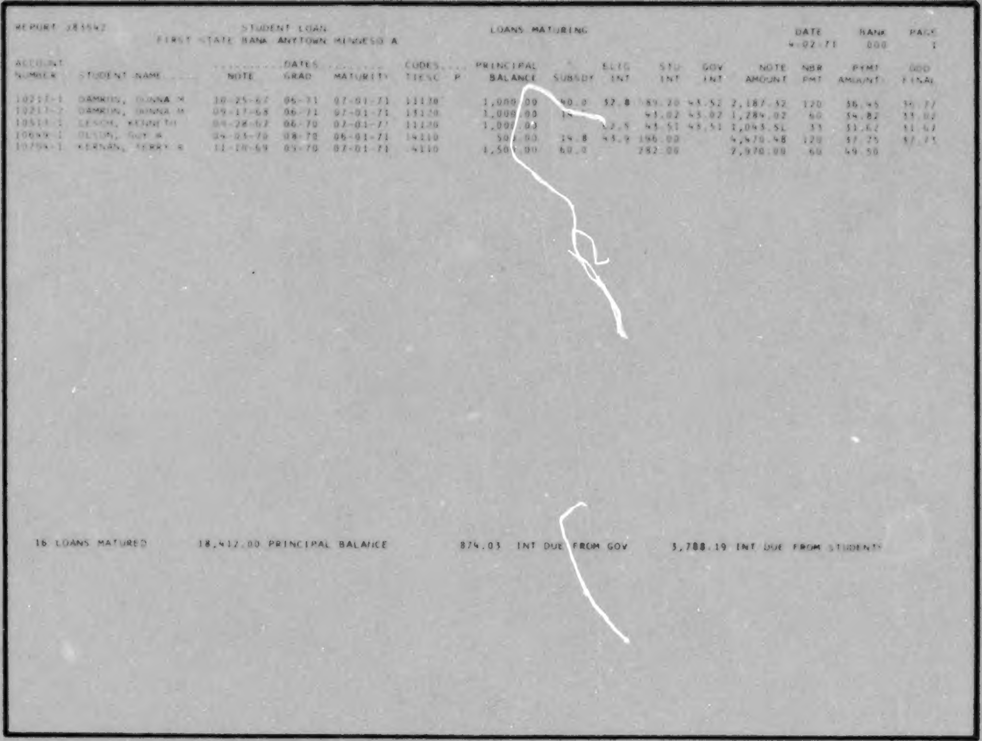
Remarks: ____________________

STUDENT STATUS LETTER

A Student Status Letter is produced by *the Service Center* whenever information has been received from either Lending Bank, School, or Office of Education indicating a change has occurred in a student's status. (See example page 3 - 18.)

The letter provides a method of student contact, allowing *the Service Center* or the Lending Bank to gain current information about a student.

LOANS MATURING REPORT



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REPORT 283542              STUDENT LOAN                           LOANS MATURING                                            DATE      BANK    PAGE
                    FIRST STATE BANK ANYTOWN MINNESO A                                                                     4-02-71    000       1

ACCOUNT                                ..........DATES.........  CODES.....  PRINCIPAL          ELIG    STU     GOV      NOTE    NBR    PYMT     ODD
NUMBER   STUDENT NAME.....       NOTE     GRAD   MATURITY  TIESC  P   BALANCE   SUBSDY   INT     INT     INT    AMOUNT    PMT   AMOUNT   FINAL

10217-1  DAMRON, DONNA M      10-25-67  06-71  07-01-71  11130        1,000.00    40.0   32.8   89.20  43.52  2,187.32   120    36.45   36.77
10217-2  DAMRON, DONNA M      09-17-68  06-71  07-01-71  11120        1,000.00    14                  43.02  43.02  1,284.02    60    34.82   33.02
10513-1  LESON, KENNETH       09-28-67  06-70  07-01-71  11120        1,000.00           42.5   43.51  43.51  1,043.51    33    31.62   31.67
10669-1  OLSON, GUY A         04-03-70  08-70  06-01-71  14110          500.00    14.8   43.9  196.00         4,470.48   120    37.25   37.73
10794-1  KERNAN, TERRY R      11-18-69  05-70  07-01-71  14110        1,500.00    60.0         282.00         2,970.00    60    49.50


   16 LOANS MATURED       18,412.00 PRINCIPAL BALANCE          874.03  INT DUE FROM GOV      3,788.19 INT DUE FROM STUDENTS
```

Loans Maturing Report is produced by *the Service Center* as loans approach maturity dates. (See example on facing page.) The report lists all loans for a given student and combines listed loans into a single suggested repayment schedule. This is the beginning of the preparation necessary to convert the student's loans to a payout status.

Interest is pre-calculated and divided between the student and the Office of Education as applicable.

At the same time a Loan Maturing Letter is prepared listing the student's loans and a suggested repayment schedule.

Following is a detailed description of each field.

KEY INFORMATION

Account Number	- The number assigned by the bank to the student's loan.
Student Name	- The first 24 characters, starting with the last name.

DATES

Note	- The original date of the loan's disbursement.
Grad	- (Graduation) The student's anticipated graduation date.
Maturity	- The date the loan is to be converted to payout.

CODES

T - (Type of loan, USAF or FISL.)

I - (Interest Calculation Code)

E - (Eligible or Ineligible Code)

S - (Subsidy Code)

C - (Co-signer Code)

P - (Pledgeable Loan Code)

PRINCIPAL BALANCE

The current unpaid amount of principal balance.

% SUBSIDY

Percentage of the principal which is eligible for the "Special Allowance" payment from the Government.

ELIGIBLE INTEREST

Percentage of the principal balance which is eligible for the 3% interest payment from the Government during the Payout period of the loan.

STUDENT INTEREST (Stu Int)

The student's share of the interest when the loan is converted to a payout status.

GOVERNMENT INTEREST (Gov Int)

The government's share of the interest when the loan is converted to a payout status.

NOTE AMOUNT

The total of the principal balance and student's share of interest.

NUMBER OF PAYMENTS

A result of calculating a repayment schedule. The number of payments necessary to repay the loan.

PAYMENT AMOUNT (Pymt Amount)

Amount of periodic payments needed to repay the loan.

ODD FINAL

Amount of the last payment if it is different from the normal payment amount.

TOTALS

Loans Matured

The accumulated number of notes being converted to payout.

Principal Balance

The accumulation of principal balances of notes being converted to payout.

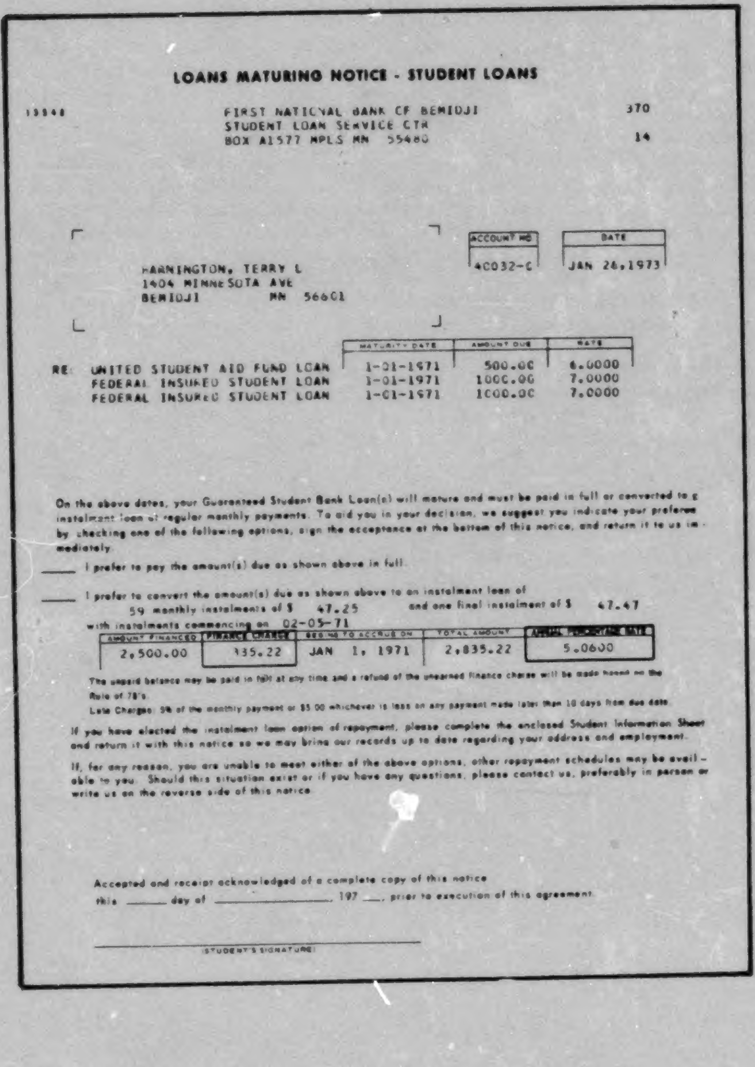
Interest Due From Government

The accumulation of the government's share of payout interest, when applicable.

Interest Due From Student

The accumulation of the student's share of payout interest.

STUDENT LETTER OF MATURITY



LOANS MATURING NOTICE - STUDENT LOANS

13348

FIRST NATICNAL BANK CF BEMIDJI
STUDENT LOAN SERVICE CTR
BOX A1577 MPLS MN 55480

370

14

HARNINGTON, TERRY L
1404 MINNESOTA AVE
BEMIDJI MN 56601

ACCOUNT NO	DATE
4C032-C	JAN 26,1973

RE:	MATURITY DATE	AMOUNT DUE	RATE
UNITED STUDENT AID FUND LOAN	1-01-1971	500.0C	6.0000
FEDERAL INSURED STUDENT LOAN	1-01-1971	100C.0G	7.0000
FEDERAL INSURED STUDENT LOAN	1-C1-1971	1C00.0C	7.0000

On the above dates, your Guaranteed Student Bank Loan(s) will mature and must be paid in full or converted to a instalment loan of regular monthly payments. To aid you in your decision, we suggest you indicate your preference by checking one of the following options, sign the acceptance at the bottom of this notice, and return it to us immediately.

_____ I prefer to pay the amount(s) due as shown above in full.

_____ I prefer to convert the amount(s) due as shown above to an instalment loan of
59 monthly instalments of $ 47.25 and one final instalment of $ 47.47
with instalments commencing on 02-05-71

AMOUNT FINANCED	FINANCE CHARGE	BEGINS TO ACCRUE ON	TOTAL AMOUNT	ANNUAL PERCENTAGE RATE
2,500.00	335.22	JAN 1, 1971	2,835.22	5.0600

The unpaid balance may be paid in full at any time and a refund of the unearned finance charge will be made based on the Rule of 78's.

Late Charges: 5% of the monthly payment or $5.00 whichever is less on any payment made later than 10 days from due date.

If you have elected the instalment loan option of repayment, please complete the enclosed Student Information Sheet and return it with this notice so we may bring our records up to date regarding your address and employment.

If, for any reason, you are unable to meet either of the above options, other repayment schedules may be available to you. Should this situation exist or if you have any questions, please contact us, preferably in person or write us on the reverse side of this notice.

Accepted and receipt acknowledged of a complete copy of this notice
this _____ day of _______________, 197 __, prior to execution of this agreement.

____
(STUDENT'S SIGNATURE)

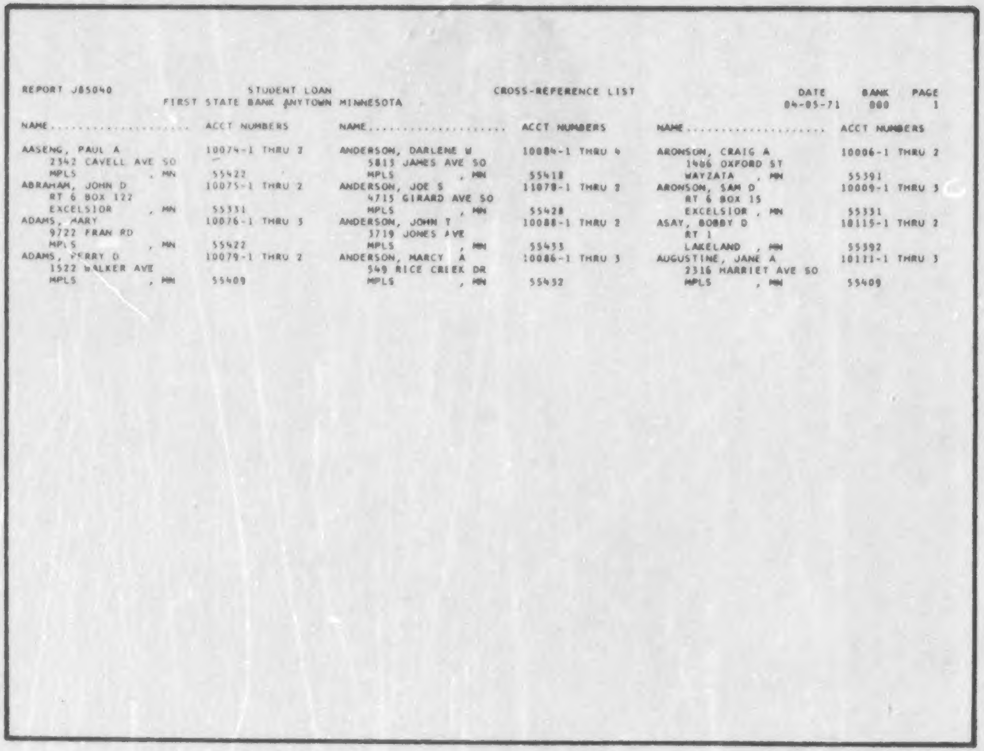
STUDENT LETTER OF MATURITY

A Student's Letter of Maturity is produced by *the Service Center* in conjunction with the Loans Maturing Report. (See example on facing page.) It notifies the student that his loans are maturing in the near future, lists each loan granted and advises the student of options available with regard to repayment. *The Service Center* will suggest a repayment schedule which will represent either the minimum monthly payment available or a five year repayment schedule which ever is less. Student is requested to indicate his preference by checking one of the two options available, sign the acceptance at the bottom and return letter to the Service Center for processing. Should the student desire a different repayment schedule, he is asked to contact *the Service Center* or indicate his preference on the reverse side of the letter returning it to *the Service Center*. *The Service Center* will then produce a new Student Letter of Maturity, and forward to student for acceptance and return.

"Students Letter of Maturity" properly accepted eliminates the need of an installment note on Federally Insured Student Loans. Upon receipt of all forms and information necessary maturing loan can then be converted to an installment loan.

PLEASE NOTE

In the event *the Service Center* experiences difficulty in locating a student, assistance from the Lending Bank will be required.



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REPORT J85040                    STUDENT LOAN                          CROSS-REFERENCE LIST                              DATE      BANK   PAGE
                       FIRST STATE BANK ANYTOWN MINNESOTA                                                          04-05-71    000      1

NAME.....................  ACCT NUMBERS      NAME.....................  ACCT NUMBERS      NAME.....................  ACCT NUMBERS

AASENG, PAUL A             10074-1 THRU 3    ANDERSON, DARLENE W        10084-1 THRU 4    ARONSON, CRAIG A           10006-1 THRU 2
    2342 CAVELL AVE SO                           5815 JAMES AVE SO                            1466 OXFORD ST
    MPLS          , MN      55422                MPLS           , MN     55418                WAYZATA   , MN          55391
ABRAHAM, JOHN D            10075-1 THRU 2    ANDERSON, JOE S            11078-1 THRU 2    ARONSON, SAM D             10009-1 THRU 3
    RT 6 BOX 122                                 4715 GIRARD AVE SO                           RT 6 BOX 15
    EXCELSIOR     , MN      55331                MPLS           , MN     55428                EXCELSIOR , MN          55331
ADAMS, MARY                10076-1 THRU 3    ANDERSON, JOHN T           10088-1 THRU 2    ASAY, BOBBY D              10115-1 THRU 2
    9722 FRAN RD                                 3719 JONES AVE                               RT 1
    MPLS          , MN      55422                MPLS           , MN     55433                LAKELAND  , MN          55392
ADAMS, PERRY D             10079-1 THRU 2    ANDERSON, MARCY  A         10086-1 THRU 3    AUGUSTINE, JANE A          10111-1 THRU 3
    1522 WALKER AVE                              549 RICE CREEK DR                            2316 HARRIET AVE SO
    MPLS          , MN      55409                MPLS           , MN     55432                MPLS      , MN          55409
```

The Cross Reference List provides a cross-reference of the student's name to the account number. (See example on facing page.) The loans are sorted so that they appear alphabetically in columns, so the columns read vertically. Indication is also made as to the number of loans each student presently has on the books.

The Service Center will from time to time furnish Lending Bank with an updated cross-reference list.

The following is a detailed description of each field.

NAME

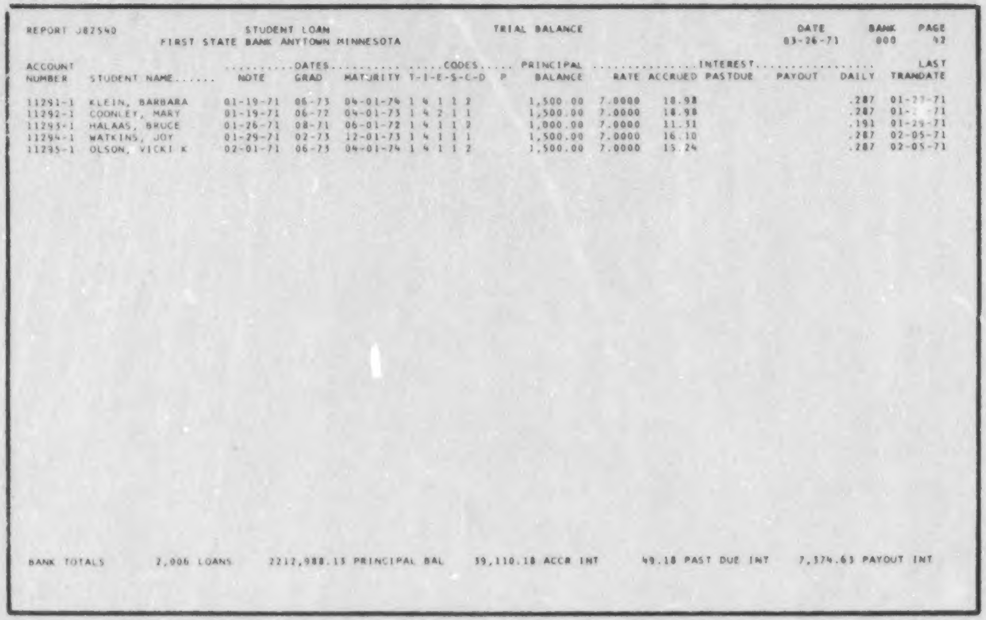
The Student's Name, last name first, first name and initial last.

ACCOUNT NUMBERS

The number assigned to the Student's loan and an indication of the number of loans.

ADDRESS

The student's address, indented below the student's name, consisting of two lines.



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REPORT J82540            STUDENT LOAN                     TRIAL BALANCE                        DATE      BANK   PAGE
                FIRST STATE BANK ANYTOWN MINNESOTA                                            03-26-71    000     42

ACCOUNT                       ...........DATES........... .....CODES..... PRINCIPAL  ..................INTEREST..................    LAST
NUMBER   STUDENT NAME......    NOTE     GRAD   MATURITY T-I-E-S-C-D  P   BALANCE     RATE ACCRUED PASTDUE   PAYOUT   DAILY  TRANDATE

11291-1  KLEIN, BARBARA      01-19-71  06-73  04-01-74 1 4 1 1 2        1,500.00  7.0000   18.98                       .287  01-27-71
11292-1  COONLEY, MARY       01-19-71  06-72  04-01-73 1 4 2 1 1        1,500.00  7.0000   18.98                       .287  01-[illegible]-71
11293-1  HALAAS, BRUCE       01-26-71  08-71  06-01-72 1 4 1 1 2        1,000.00  7.0000   11.31                       .191  01-29-71
11294-1  WATKINS, JOY        01-29-71  02-73  12-01-73 1 4 1 1 1        1,500.00  7.0000   16.10                       .287  02-05-71
11295-1  OLSON, VICKI K      02-01-71  06-73  04-01-74 1 4 1 1 2        1,500.00  7.0000   15.24                       .287  02-05-71




BANK TOTALS     2,006 LOANS    2212,988.13 PRINCIPAL BAL    39,110.18 ACCR INT     49.18 PAST DUE INT   7,374.63 PAYOUT INT
```

Periodically *the Service Center* will furnish the Lending Bank a copy of the Trial Balance. (See example on facing page.) The Trial Balance shows current detailed information about each note. The report provides as nearly as possible all information needed to answer a students inquiry.

Following is a detailed description of each field on the Trial Balance.

KEY INFORMATION

Account Number	The number assigned by *the Service Center* to the student's loan.
Student Name	The first 24 characters, starting with the last name.

DATES

Note	The original date of the loan disbursement.
Grad	(Graduation.) The student's anticipated graduation date.
Maturity	The date the loan is to be converted to payout.

CODES (See Code Values)

T - (Type of Loan, USAF or FISL.)

I - (Interest Calculation Code.)

E - (Eligible or Ineligible Code.)

S - (Subsidy Code.)

C - (Converted to Payout Code.)

D - (Deferred Code.)

P - (Pledgeable Loan Code.)

PRINCIPAL BALANCE

The amount of the note.

INTEREST

Rate - Rate of interest by which interest is accrued.

Accrued - Amount of unpaid accrued interest to date.

Past-Due - Amount of unpaid past due interest to date. Interest accumulates to this field when a student's loan goes beyond the maturity date.

Payout - Amount of unpaid payout interest due from the government.

Daily - Amount of interest to accrue for one day.

LAST TRANSACTION DATE

The date the last transaction was posted to the loan. This includes internal transactions generated by *the Service Center*.

TOTALS

Notes - The total number of interim notes on file.

Principal Bal - The accumulation of the principal balances for each interim note.

Accrued Int - The accumulation of the unpaid accrued interest.

Past Due Int - The accumulation of the unpaid past due accrued interest.

Payout Int - The accumulation of the unpaid payout interest due from the government.

CODE VALUES

1. Type Code (T)

   0 - Invalid
   1 - FISL (Federal Insured Student Loan)
   2 - USAF (United Student Aid Fund)
   3 thru 9 - For State Guaranties

2. Payout Interest Calculation (I)

   0 - Invalid
   1 - Student Pays 3% - Government Pays 3%
   2 - Student Pays 6% - Government Pays 0%
   3 - Student Pays 4% - Government Pays 3%
   4 - Student Pays 7% - Government Pays 0%

3. Eligible/Ineligible Code (E)

   0 - Invalid
   1 - Student Eligible for Government Interest
   2 - Student Ineligible for Government Interest

4. Subsidy Code (S)

   0 - Invalid
   1 - Loan Subsidized
   2 - Loan Not Subsidized

5. Co-Sign Code (C)

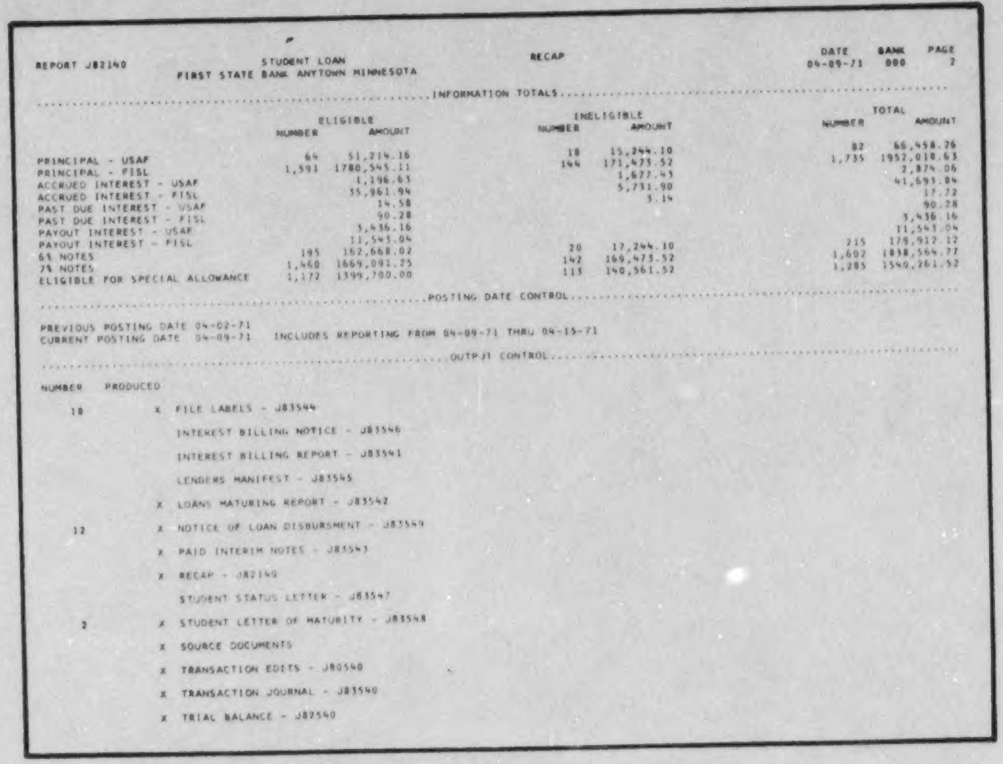
   0 - Not Applicable
   1 - Co-Signer
   2 - No Co-Signer

6. Deferment Code (D)

   0 - Invalid
   1 - Additional Education
   2 - Armed Services
   3 - Peace Corp
   4 - VISTA

7. P Code - Not applicable at this time

RECAP REPORT



```
REPORT J82140                  STUDENT LOAN                         RECAP                                          DATE      BANK   PAGE
                    FIRST STATE BANK ANYTOWN MINNESOTA                                                           04-09-71   000      2
.................................................INFORMATION TOTALS..................................................................
                                                                                                                    TOTAL
                                                ELIGIBLE                         INELIGIBLE              NUMBER            AMOUNT
                                       NUMBER          AMOUNT             NUMBER          AMOUNT

PRINCIPAL - USAF                           64       51,214.16                 18       15,244.10             82         66,458.26
PRINCIPAL - FISL                        1,591     1780,545.11                144      171,473.52          1,735       1952,018.63
ACCRUED INTEREST - USAF                             1,196.63                          1,677.43                          2,874.06
ACCRUED INTEREST - FISL                            35,961.94                          5,731.90                         41,693.84
PAST DUE INTEREST - USAF                               14.58                              3.14                             17.72
PAST DUE INTEREST - FISL                               90.28                                                               90.28
PAYOUT INTEREST - USAF                              3,436.16                                                            3,436.16
PAYOUT INTEREST - FISL                             11,543.04                                                           11,543.04
6% NOTES                                  195      162,668.02                 20       17,244.10            215        179,912.12
7% NOTES                                1,460     1669,091.25                142      169,473.52          1,602       1838,564.77
ELIGIBLE FOR SPECIAL ALLOWANCE          1,172     1399,700.00                113      140,561.52          1,285       1540,261.52

.................................................POSTING DATE CONTROL................................................................

PREVIOUS POSTING DATE 04-02-71
CURRENT POSTING DATE  04-09-71   INCLUDES REPORTING FROM 04-09-71 THRU 04-15-71
.....................................................OUTPJ1 CONTROL..................................................................

NUMBER   PRODUCED

   18         X  FILE LABELS - J83544

                 INTEREST BILLING NOTICE - J83546

                 INTEREST BILLING REPORT - J83541

                 LENDERS MANIFEST - J83545

              X  LOANS MATURING REPORT - J83542

   12         X  NOTICE OF LOAN DISBURSMENT - J83549

              X  PAID INTERIM NOTES - J83543

              X  RECAP - J82140

                 STUDENT STATUS LETTER - J83547

    2         X  STUDENT LETTER OF MATURITY - J83548

              X  SOURCE DOCUMENTS

              X  TRANSACTION EDITS - J80540

              X  TRANSACTION JOURNAL - J83540

              X  TRIAL BALANCE - J82540
```

RECAP REPORT

Reflects
4 week.
weekly ?

```
REPORT J02140               STUDENT LOAN                              RECAP                                   DATE      BANK   PAGE
                   FIRST STATE BANK ANYTOWN MINNESOTA                                                       06-09-71    000      1
.......................................................BALANCE CONTROL...........................................................

                                       TRANSACTION CONTROL      PRINCIPAL OUTSTANDING                  INTEREST OUTSTANDING
                                       NUMBER        AMOUNT      NUMBER        AMOUNT       ACCRUED        PAST DUE         PAYOUT

I  BALANCE FORWARD                                        -       1,810  2010,101.89      41,992.07          61.10      14,969.55

   A  NEW STUDENT LOANS
      1  BANK CONTROL                      12     13,375.00
      2  LOANS APPLIED                     12     13,375.00          12     13,375.00
      3  LOANS UNAPPLIED
      4  DIFFERENCE

   B  DEBITS AND CREDITS
      1  BANK CONTROL                       9      1,557.71
      2  DEBITS APPLIED
      3  CREDITS APPLIED                    9      1,557.71                 1,500.00          40.38           4.38          12.95
      4  UNPAID INTEREST WAIVED                                                                                .20
      5  OVERPAID INTEREST WAIVED                                                                             +.20
      6  UNAPPLIED
      7  DIFFERENCE

   C  GOVERNMENT PAID INTEREST
      1  APPLIED
      2  UNAPPLIED

   D  CALCULATED INTEREST
      1  APPLIED TO ACCRUED                                                               2,616.21
      2  APPLIED TO PAST DUE                                                                             51.20
      3  APPLIED TO PAYOUT                                                                                               22.60

   E  NOTES CONVERTED TO PAYOUT   (STUDENT INTEREST      77.88)       4      3,500.00

   F  NOTES PAID IN FULL                                              1

   G  PROOF OF BALANCE
      1  ACCUMULATED                                              1,817  2018,476.89      44,567.90         108.00      14,979.20
      2  CALCULATED                                               1,817  2018,476.89      44,567.90         108.00      14,979.20
      3  DIFFERENCE

II STATUS CHANGES AND REQUESTS

      1  BANK CONTROL                      15
      2  APPLIED                           15
      3  UNAPPLIED                          1
      4  DIFFERENCE                         1
```

The Service Center will furnish the Lending Bank a copy of the Recap Report weekly for it's information and control. (See example on facing pages.)

The report has four major sections.

1. Balance & Control
2. Information Totals
3. Posting Date Control
4. Output Control

Balance Control

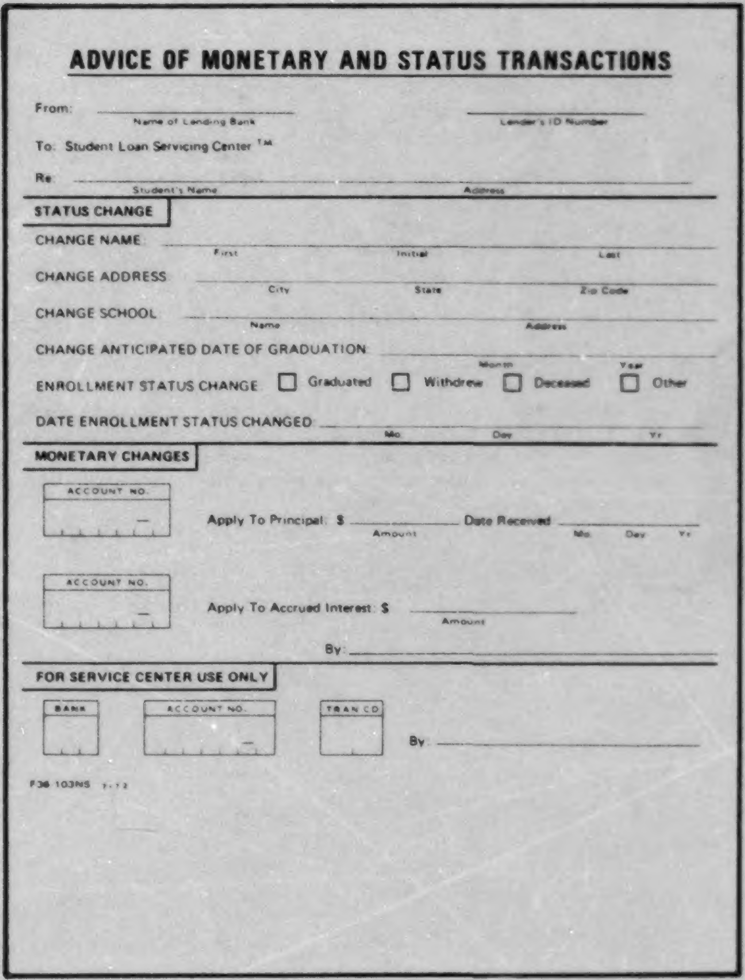
The Balance Control section provides for the control of input transactions, principal outstandings, accrued interest outstandings, past due interest outstandings, and payout interest outstandings. It also provides the Lending Bank with the necessary information to update its general ledger accounts.

Information Totals

The Information Totals section provides the Lending Bank with total information consisting of various groupings of loans accumulated. Totals are shown for eligible and ineligible loans in all cases.

Posting Date Control & Output Control

Posting Date Control and Output Control sections are for *the Service Center* use only.



ADVICE OF MONETARY AND STATUS TRANSACTIONS

From: ______________________ Name of Lending Bank ______________________ Lender's ID Number

To: Student Loan Servicing Center ™

Re: ______________________ Student's Name ______________________ Address

STATUS CHANGE

CHANGE NAME ______________ First ______________ Initial ______________ Last

CHANGE ADDRESS ______________ City ______________ State ______________ Zip Code

CHANGE SCHOOL ______________ Name ______________ Address

CHANGE ANTICIPATED DATE OF GRADUATION ______________ Month ______________ Year

ENROLLMENT STATUS CHANGE ☐ Graduated ☐ Withdrew ☐ Deceased ☐ Other

DATE ENROLLMENT STATUS CHANGED ______________ Mo ______________ Day ______________ Yr

MONETARY CHANGES

ACCOUNT NO. ______ Apply To Principal: $ ______________ Amount Date Received ______________ Mo Day Yr

ACCOUNT NO. ______ Apply To Accrued Interest: $ ______________ Amount

By: ______________________

FOR SERVICE CENTER USE ONLY

BANK ______ ACCOUNT NO. ______ TRAN CD ______ By: ______________________

F36 103NS 7-72

Status Transactions

Status transactions represents changes in the students fixed information or educational data. Any changes received by Lending Bank should be reported to *the Service Center* on the form provided. (See example on facing page.)

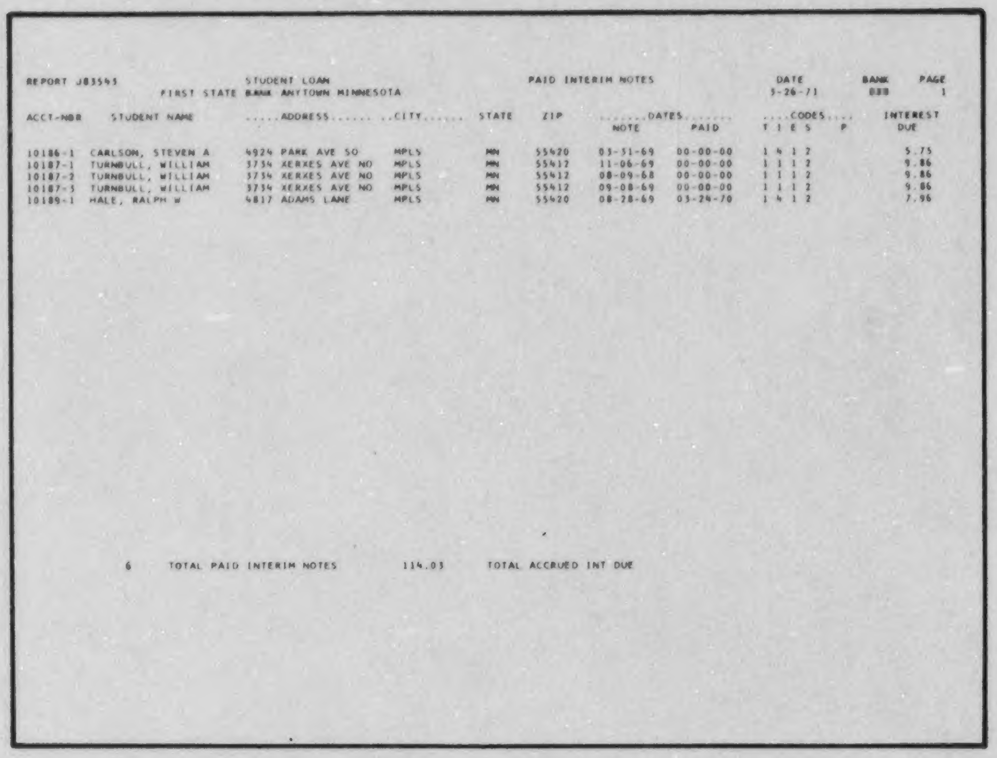
Status transactions include changes in:

- Name
- Address
- School
- Enrollment
- Graduation Date

Monetary Transactions

Monetary transactions represent any monetary changes in principal and interest effecting a students loan. All such payments received by the Lending Bank must be reported to *the Service Center* on the form provided for 'entry into the Servicing System. (See example on facing page.)

PAID INTERIM NOTES REPORT



```
REPORT J83545               STUDENT LOAN                        PAID INTERIM NOTES                DATE        BANK    PAGE
                 FIRST STATE BANK ANYTOWN MINNESOTA                                               3-26-71     888        1

ACCT-NBR   STUDENT NAME         .....ADDRESS...... ..CITY......  STATE    ZIP    ........DATES........   ....CODES....    INTEREST
                                                                                   NOTE       PAID       T I E S    P        DUE

10186-1  CARLSON, STEVEN A      4924 PARK AVE SO    MPLS          MN     55420   03-31-69   00-00-00     1 4 1 2              5.75
10187-1  TURNBULL, WILLIAM      3734 XERXES AVE NO  MPLS          MN     55412   11-06-69   00-00-00     1 1 1 2              9.86
10187-2  TURNBULL, WILLIAM      3734 XERXES AVE NO  MPLS          MN     55412   08-09-68   00-00-00     1 1 1 2              9.86
10187-3  TURNBULL, WILLIAM      3734 XERXES AVE NO  MPLS          MN     55412   09-08-69   00-00-00     1 1 1 2              9.86
10189-1  HALE, RALPH W          4817 ADAMS LANE     MPLS          MN     55420   08-28-69   03-24-70     1 4 1 2              7.96




              6     TOTAL PAID INTERIM NOTES         114.03     TOTAL ACCRUED INT DUE
```

PAID INTERIM NOTES REPORT

Periodically *the Service Center* will furnish the Lending Bank a copy of the "Paid Interim Note Report".

This report is generated for eligible notes that go to zero principal balance and for ineligible notes that go to both zero principal and zero interest balances. This report also provides the Lending Bank control in returning notes which are paid in full during the interim period.

KEY INFORMATION

Account Number	- The number assigned by the bank to the student's loan.
Student Name	- The first 24 characters, starting with the last name.
Student Address	- Student's street address.
City, State, Zip	- The student's city and state address and zipcode.

DATES

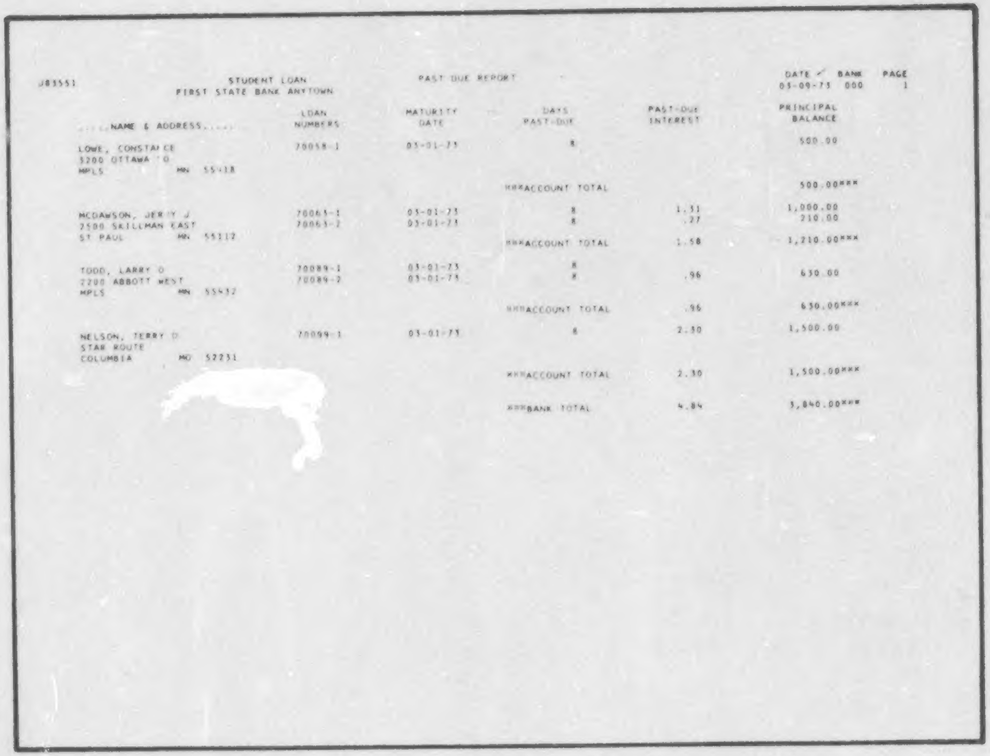
Note	- The original date of the loan's disbursement.
Paid	- The date the note was paid.

CODES

T - (Type of Loan, USAF or FISL.)
I - (Interest Calculation Code.)
E - (Eligible or Ineligible Code.)
S - (Subsidy Code.)
P - (Pledgeable Loan Code.)

ACCRUED INTEREST	- Accrued interest due or overpaid.

INTERIM LOAN PAST DUE REPORT



```
J83551              STUDENT LOAN                PAST DUE REPORT                                      DATE /  BANK    PAGE
                FIRST STATE BANK ANYTOWN                                                             03-09-73  000      1

                                     LOAN        MATURITY          DAYS            PAST-DUE         PRINCIPAL
      .....NAME & ADDRESS.....      NUMBERS        DATE           PAST-DUE         INTEREST          BALANCE

      LOWE, CONSTANCE               70058-1      03-01-73             8                                500.00
      3200 OTTAWA RD
      MPLS            MN  55418

                                                              ***ACCOUNT TOTAL                         500.00***

      MCDAWSON, JERRY J             70063-1      03-01-73             8               1.31           1,000.00
      2500 SKILLMAN EAST            70063-2      03-01-73             8                .27             210.00
      ST PAUL         MN  55112
                                                              ***ACCOUNT TOTAL        1.58           1,210.00***

      TODD, LARRY O                 70089-1      03-01-73             8
      2200 ABBOTT WEST              70089-2      03-01-73             8                .96             630.00
      MPLS            MN  55432

                                                              ***ACCOUNT TOTAL         .96             630.00***

      NELSON, TERRY D               70099-1      03-01-73             8               2.30           1,500.00
      STAR ROUTE
      COLUMBIA        MO  52231

                                                              ***ACCOUNT TOTAL        2.30           1,500.00***

                                                              ***BANK TOTAL           4.84           3,840.00***
```

INTERIM LOAN PAST DUE REPORT

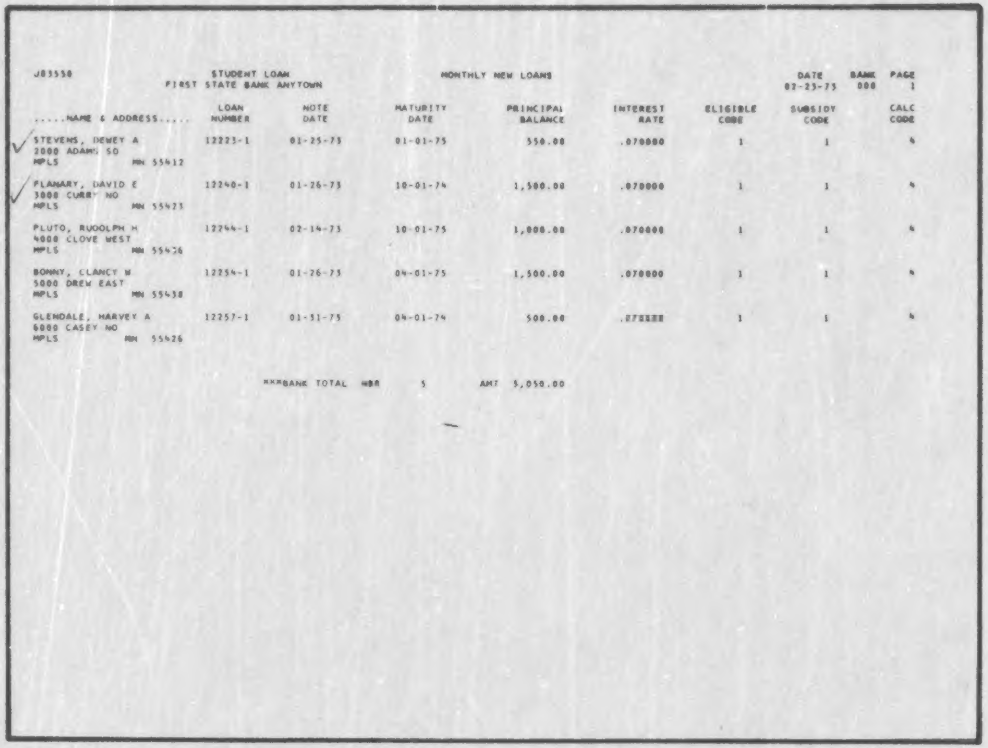
The Past Due Report is prepared weekly with a copy furnished the Lending Bank by *the Service Center*.

This report is generated on all loans that have gone beyond the maturity date and have not been converted to a payout status.

KEY INFORMATION

Name and Address	- Student's name and most current address.
Loan Numbers	- Account number assigned to student by *the Service Center*.
Maturity Date	- Last day of the grace period.
Days Past Due	- Number of days from maturity date to date of report.
Past Due Interest	- Interest accrued from maturity date to date of report.
Principal Balance	- Principal balance still owing on student's loan(s).

NEW LOAN REPORT



```
J83550                  STUDENT LOAN                          MONTHLY NEW LOANS                                 DATE     BANK  PAGE
                   FIRST STATE BANK ANYTOWN                                                                   02-23-73   000     1

.....NAME & ADDRESS.....  LOAN       NOTE        MATURITY        PRINCIPAL        INTEREST     ELIGIBLE    SUBSIDY         CALC
                          NUMBER     DATE          DATE           BALANCE           RATE         CODE        CODE          CODE

STEVENS, DEWEY A          12223-1    01-25-73    01-01-75           550.00         .070000           1           1             4
2000 ADAMS SO
MPLS            MN 55412

FLANARY, DAVID E          12240-1    01-26-73    10-01-74         1,500.00         .070000           1           1             4
3000 CURRY NO
MPLS            MN 55423

PLUTO, RUDOLPH H          12244-1    02-14-73    10-01-75         1,000.00         .070000           1           1             4
4000 CLOVE WEST
MPLS            MN 55436

BONNY, CLANCY W           12254-1    01-26-73    04-01-75         1,500.00         .070000           1           1             4
5000 DREW EAST
MPLS            MN 55438

GLENDALE, HARVEY A        12257-1    01-31-73    04-01-74           500.00         .070000           1           1             4
6000 CASEY NO
MPLS            MN 55426


                   ***BANK TOTAL  NBR      5       AMT  5,050.00
```

NEW LOAN REPORT

The New Loan Report is prepared monthly with a copy furnished to the Lender by *the Service Center.*

This report is produced for all new loans going on the system during the month. The report identifies each individual note as well as the total number of notes and total principal balances during the period.

KEY INFORMATION

Name and Address	- Student's name and current address.
Loan Number	- The account number assigned to the student by the Service Center.
Note Date	- The date funds were disbursed.
Maturity Date	- The date the note is due including grace period allowed.
Principal Balance	- The face amount of the note.
Interest Rate	- The interest rate that applies to the note.
Eligible Code	- Eligibility for Government Interest Benefits.
Subsidy Code	- Eligibility for Special Allowance.
Calc Code	- Payout interest calculation code.

CONTENTS

Page

SECTION IV - SERVICING PAYOUT LOANS

A. Loan Processing Procedures

1. New Loans in Payout Status 4-1
2. Confirmation Form 4-1
3. Coupon Book 4-1
4. Loan Inquiry Coupon 4-1

B. Collection Procedures

1. Payments 4-4
2. Late Notice 4-4
3. Final Notice 4-4
4. Personal Followup 4-4
5. Late Charges 4-4
6. Extensions 4-4
7. Refinances 4-5
8. Deferments 4-5
9. Claims 4-5
10. Monetary Transaction Advice 4-7
11. Payments Received by Lender 4-8
12. Return Items 4-8

C. Reports

1. Loan Index 4-10
2. Trial Balance 4-12

Page

3. Cash Receipts Journal 4-16

4. Delinquent Accounts Report 4-20

5. Accrual Report 4-22

6. Paid Accounts Report 4-24

7. Tax Information 4-25

NEW LOANS IN PAYOUT STATUS

When the Student Loan Servicing Center has completed the negotiation of a satisfactory repayment schedule with the borrower, his loans are automatically converted into a single payout installment loan on *the Service Center's* Installment Loan System.

CONFIRMATION

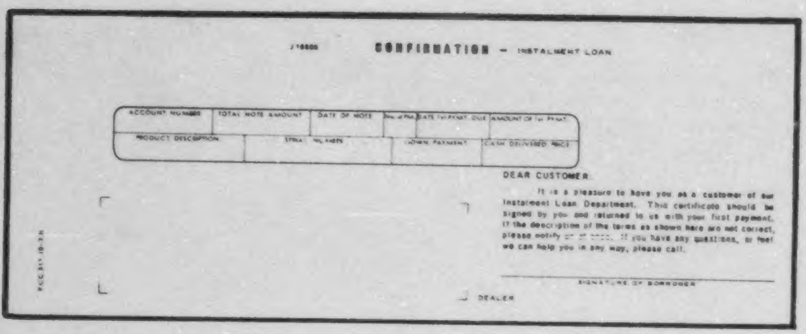
A confirmation form is produced for all existing payout loans and new loans entering payout status. The confirmation is forwarded to the borrower to confirm his understanding of the terms of the loan. (See example on facing page.)

COUPON BOOK

As loans are transferred to the Installment Loan System, a coupon book is prepared and mailed to the borrower. The book consists of one coupon for each installment, a change of address form, and a loan inquiry form. The borrower is instructed to enclose the appropriate coupon with each remittance to be forwarded directly to the Student Loan Servicing Center. (See example on facing page.)

LOAN INQUIRY COUPON

This coupon is included in each payment book for borrower's use to inquire about additional loans. (See example on facing page.) When received by the Student Loan Servicing Center, it will be forwarded onto the lending bank for it's consideration.



CONFIRMATION – INSTALMENT LOAN

ACCOUNT NUMBER	TOTAL NOTE AMOUNT	DATE OF NOTE	No. of Pmt.	DATE 1st PYMT. DUE	AMOUNT OF 1st PYMT.

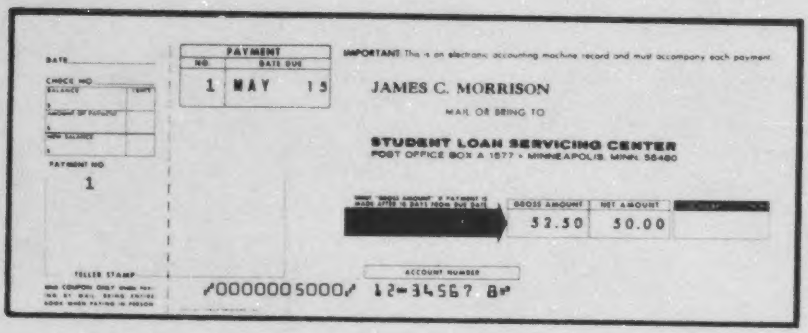
PRODUCT DESCRIPTION	SERIAL NUMBER	DOWN PAYMENT	CASH DELIVERED PRICE

DEAR CUSTOMER

It is a pleasure to have you as a customer of our Instalment Loan Department. This certificate should be signed by you and returned to us with your first payment. If the description of the terms as shown here are not correct, please notify us at once. If you have any questions, or feel we can help you in any way, please call.

SIGNATURE OF BORROWER

DEALER



DATE

CHECK NO

BALANCE $

AMOUNT OF PAYMENT $

NEW BALANCE $

PAYMENT NO

1

TELLER STAMP

SEND COUPON ONLY WHEN PAYING BY MAIL. BRING ENTIRE BOOK WHEN PAYING IN PERSON

PAYMENT	
NO	DATE DUE
1	MAY 15

IMPORTANT This is an electronic accounting machine record and must accompany each payment

JAMES C. MORRISON

MAIL OR BRING TO

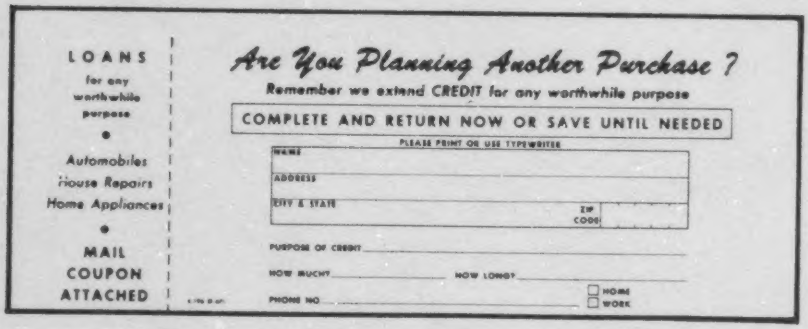
STUDENT LOAN SERVICING CENTER
POST OFFICE BOX A 1577 • MINNEAPOLIS, MINN. 55480

REMIT "GROSS AMOUNT" IF PAYMENT IS MADE AFTER 10 DAYS FROM DUE DATE

GROSS AMOUNT	NET AMOUNT
52.50	50.00

ACCOUNT NUMBER

⑈0000005000⑈ 12-34567 8⑈



LOANS
for any
worthwhile
purpose
•
Automobiles
House Repairs
Home Appliances
•
MAIL
COUPON
ATTACHED

Are You Planning Another Purchase ?

Remember we extend CREDIT for any worthwhile purpose

COMPLETE AND RETURN NOW OR SAVE UNTIL NEEDED

PLEASE PRINT OR USE TYPEWRITER

NAME

ADDRESS

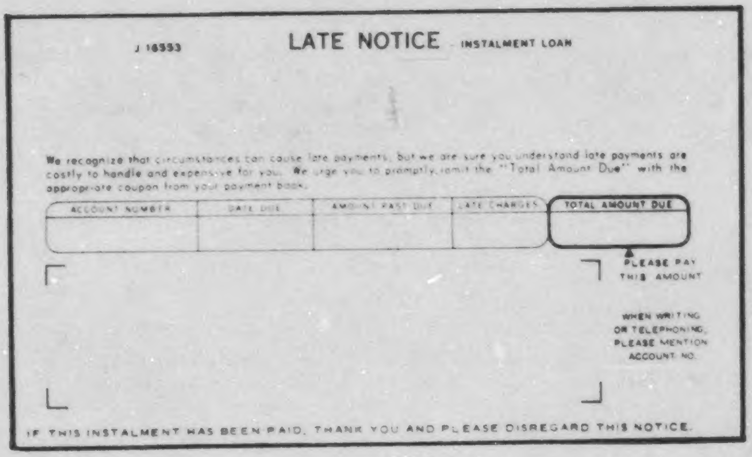
CITY & STATE ZIP CODE

PURPOSE OF CREDIT ____________________

HOW MUCH? __________ HOW LONG? __________

PHONE NO __________ ☐ HOME ☐ WORK

DELINQUENT NOTICES



J 16553

LATE NOTICE INSTALMENT LOAN

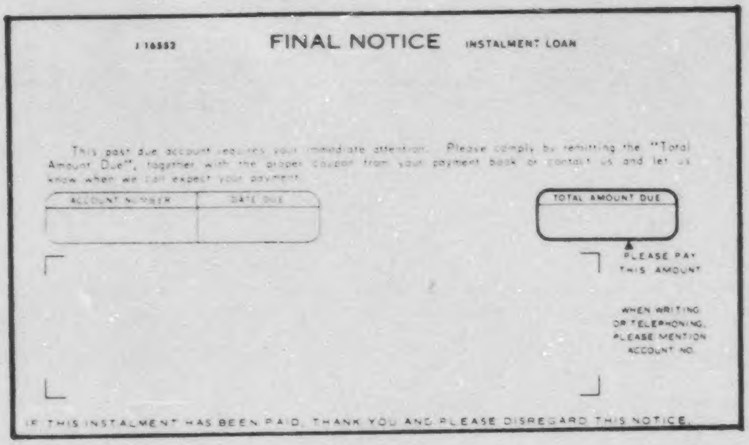
We recognize that circumstances can cause late payments, but we are sure you understand late payments are costly to handle and expensive for you. We urge you to promptly remit the "Total Amount Due" with the appropriate coupon from your payment book.

ACCOUNT NUMBER	DATE DUE	AMOUNT PAST DUE	LATE CHARGES	TOTAL AMOUNT DUE

PLEASE PAY THIS AMOUNT

WHEN WRITING OR TELEPHONING, PLEASE MENTION ACCOUNT NO.

IF THIS INSTALMENT HAS BEEN PAID, THANK YOU AND PLEASE DISREGARD THIS NOTICE.



J 16552

FINAL NOTICE INSTALMENT LOAN

This past due account requires your immediate attention. Please comply by remitting the "Total Amount Due", together with the proper coupon from your payment book or contact us and let us know when we can expect your payment.

ACCOUNT NUMBER	DATE DUE

TOTAL AMOUNT DUE

PLEASE PAY THIS AMOUNT

WHEN WRITING OR TELEPHONING, PLEASE MENTION ACCOUNT NO.

IF THIS INSTALMENT HAS BEEN PAID, THANK YOU AND PLEASE DISREGARD THIS NOTICE.

PAYMENTS

Payments received will normally be posted to each borrower's account the same day. The lender's correspondent bank account will be credited on a weekly basis for payments received with appropriate advice and copies of the cash receipts journals forwarded to the lender.

LATE NOTICE

On the tenth day of delinquency a late notice is produced and forwarded to the borrower. This notice includes permissable late charges and reflects the total amount due. (See example on facing page.)

FINAL NOTICE

On the twentieth day of delinquency a final or second notice is produced and forwarded to the Student Loan Servicing Center collection division for action. Dependent on individual account experience (frequency of delinquency, etc.) the collector determines whether the notice should be mailed or if a personal follow up is more appropriate. (See example on facing page.)

PERSONAL FOLLOW UP

On the twentieth day of delinquency personal follow up will be implemented and continued at five day intervals thereafter. All collection procedures will be employed which are consistent with normal collection practices.

LATE CHARGES

Late charges as permitted by law will be assessed for failure of a borrower to pay all or any part of an installment within ten days after it's due date. Payment of late charges may be waived at the discretion of the Lender or *the Service Center*. All late charges collected will accrue to the benefit of the lender and credited to it's account periodically.

EXTENSIONS

The Student Loan Servicing Center reserves the right to allow extensions consistent with the regulations which may be necessary for orderly liquidation of a loan. There may be occasions when the lender is asked by the borrower to permit extension of a payment. If this occurs and the lender is satisfied that the request is valid, details will be reported promptly to *the Service Center* by the lender in writing.

REFINANCES

Any request for refinances to increase or reduce payment schedules should be referred by the lender to the Student Loan Servicing Center. This is necessary to maintain proper control of the account and insure that a refinance conforms to the regulations and does not jeopardize any claim rights under the insurance.

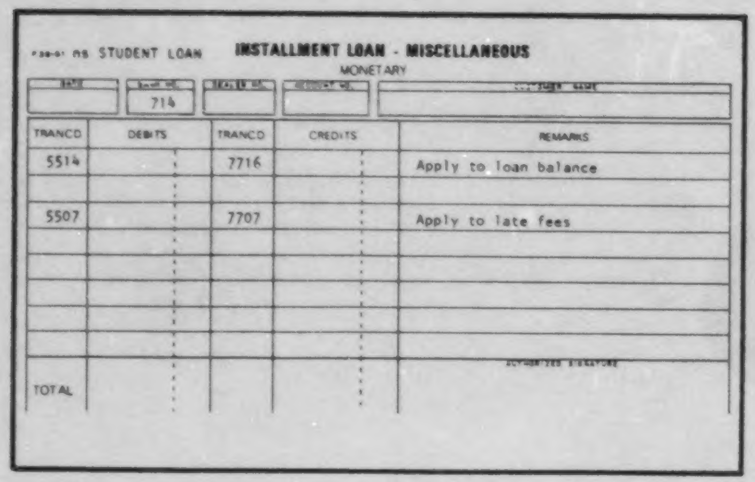
DEFERMENTS

Requests for deferments will be handled by the Student Loan Servicing Center. Upon receipt from borrower of acceptable proof of eligibility for permissable deferment *the Service Center* will reconvert the Installment Loan to the Student Loan Interim System on an individual interim note basis. The center will then continue to bill the government for interest benefits for the period of deferment. At expiration of the deferment period the notes will be again converted and serviced in a payout status.

CLAIMS

Acting as agent for the lender, the Student Loan Servicing Center will file death and total disability claims upon receipt of official evidence of death or required medical evidence of total disability. Default Claims will be filed when it is reasonable to conclude that the borrower no longer intends to honor his obligation and failure to repay persists for 120 days in the case of a loan repayable in monthly installments or in 180 days in the case of a loan repayable in less frequent installments.

MONETARY TRANSACTION ADVICE



STUDENT LOAN **INSTALLMENT LOAN - MISCELLANEOUS**
MONETARY

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	714			

TRANCD	DEBITS	TRANCD	CREDITS	REMARKS
5514		7716		Apply to loan balance
5507		7707		Apply to late fees
TOTAL				AUTHORIZED SIGNATURE

PAYMENTS RECEIVED BY LENDER

There may be occasions when the borrower will make payments to the lender. When this occurs, the lender will retain the payment and late fees if any, and prepare a monetary transaction form to be forwarded promptly to *the Service Center*. (See example on facing page.) Borrowers should however be encouraged to remit payments directly to the Student Loan Servicing Center.

The monetary transaction form is self explanatory, however the following explanations of certain information may be helpful:

Date - This is the date the lender received the payment
Dealer No. - This is the number assigned to the lender by *the Service Center*
Account No. - This is the borrowers account number

Enter the amount received in the credit column opposite the appropriate tran code:

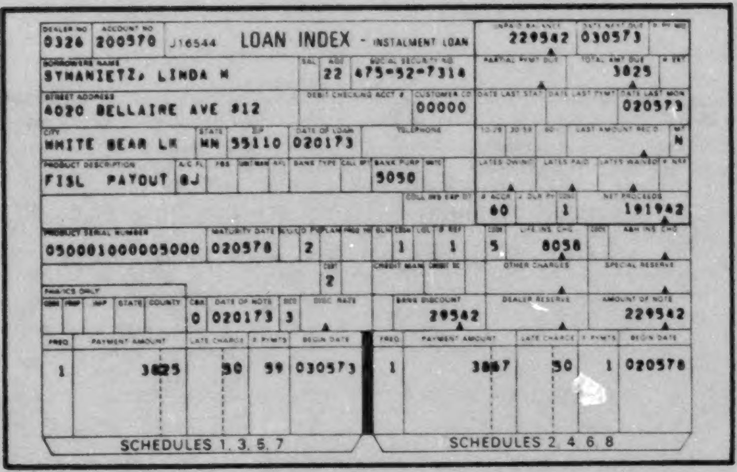
Trancd 7716 - Credit to Loan Balance
Trancd 7707 - Apply to Late Fees

RETURN ITEMS

There may be occasions when a check the lender accepted in payment on a borrower's loan is returned and the lender may not be able to recover. Should this occur, prepare a monetary transaction form to reverse the previous credit to the borrower's account and forward promptly to *the Service Center*. (See example on facing page.)

Enter the amounts to be charged back to the account in the debit column opposite the appropriate tran codes:

Trancd 5514 - Debit Loan Balance
Trancd 5507 - Debit Late Fees



LOAN INDEX - INSTALMENT LOAN

J16544

DEALER NO: 0326
ACCOUNT NO: 200570
UNPAID BALANCE: 229542
DATE NEXT DUE: 030573
BORROWER'S NAME: SYMANIETZ, LINDA M
SAL:
AGE: 22
SOCIAL SECURITY NO: 475-52-7318
PARTIAL PYMT DUE:
TOTAL AMT DUE: 3025
STREET ADDRESS: 4020 BELLAIRE AVE #12
DEBIT CHECKING ACCT #:
CUSTOMER CD: 00000
DATE LAST STAT:
DATE LAST PYMT:
DATE LAST MON: 020573
CITY: WHITE BEAR LK
STATE: MN
ZIP: 55110
DATE OF LOAN: 020173
TELEPHONE:
10-29:
30-59:
60+:
LAST AMOUNT REC'D:
N
PRODUCT DESCRIPTION: FISL PAYOUT
A/C FL: 8J
BANK TYPE:
BANK PURP: 5050
LATES OWING:
LATES PAID:
LATES WAIVED:
COLL INS EXP DT:
ACCR: 60
CODE: 1
NET PROCEEDS: 191942
PRODUCT SERIAL NUMBER: 050001000005000
MATURITY DATE: 020578
2
1
1
CODE: 5
LIFE INS CHG: 8058
CODE:
A&H INS CHG:
2
CREDIT MAN:
OTHER CHARGES:
SPECIAL RESERVE:
FHA/VCS ONLY
STATE:
COUNTY:
CBR: 0
DATE OF NOTE: 020173
3
DISC RATE:
BANK DISCOUNT: 29542
DEALER RESERVE:
AMOUNT OF NOTE: 229542

FREQ	PAYMENT AMOUNT	LATE CHARGE	# PYMTS	BEGIN DATE	FREQ	PAYMENT AMOUNT	LATE CHARGE	# PYMTS	BEGIN DATE
1	3825	50	59	030573	1	3867	50	1	020578
SCHEDULES 1, 3, 5, 7					SCHEDULES 2, 4, 6, 8				

LOAN INDEX

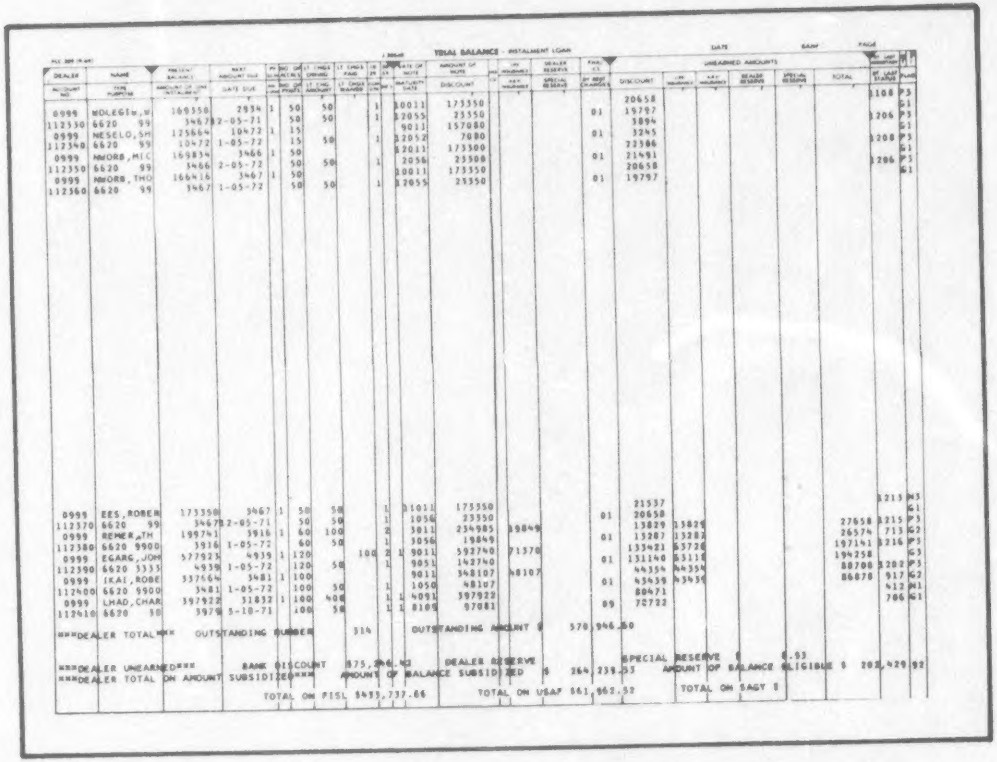
4-10

This report will be produced for each existing payout loan and new loans converted to the Student Loan Service Center Installment Loan System and will be forwarded to the lender. It provides the lender with a complete record of each loan in a payout status, and if filed alphabetically, serves as a cross reference for all reports in account number sequence. (See example on facing page.)

CONTENTS

Column headings on the report are for the most part self-explanatory, however, the following detail clarifies certain headings uded which may be of interest to the lender. Most of the other areas are used by *the Service Center* for interest billing and collection procedures.

COLUMN HEADING		BRIEF DESCRIPTION
DEALER NUMBER	-	Bank number assigned to lender
FREQ	-	Frequency - payment schedule code (only one applicable to student loans) 1. Monthly
AMOUNT OF NOTE	-	Principal plus student's share of interest
DISCOUNT	-	Interest due from student
LIFE INSURANCE	-	Interest (partial subsidy) due from government
NET PROCEEDS	-	Disregard amount in this field



TRIAL BALANCE - INSTALMENT LOAN DATE BANK PAGE

```
0999   MOLEGIN,W  169350     2934 1  50  50         1  10011  173350              20658   1108 P3
112330 6620    99   3467 2-05-71     50  50         1  12055   23350          01  19797        G1
0999   NESELO,SH  125664    10472 1  15                 9011  157080               3094   1206 P3
112340 6620    99  10472 1-05-72     15  50         1  12052    7080          01   3245        G1
0999   MWORB,MIC  169834     3466 1  50                12011  173300              22306   1208 P3
112350 6620    99   3466 2-05-72     50  50         1   2056   23500          01  21491        G1
0999   MWORB,THO  166416     3467 1  50                10011  173350              20658   1206 P3
112360 6620    99   3467 1-05-72     50  50         1  12055   23350          01  19797        G1

0999   EES,ROBER  173350     3467 1  50  50         1  31011  173350              21537                 1213 M3
112370 6620    99   3467 2-05-71     50  50         1   1056   23350          01  20658                      G1
0999   REMER,TH   199741     3916 1  60 100         2   3011  234985  39849       13829  13829   27658 1215 P3
112380 6620  9900   3916 1-05-72     60  50         1   3056   19849          01  13287  13287   26574  713 G2
0999   EGARG,JOH  577923     4939 1 120      100    2 1 9011  592740  71570      133421  53720  197141 1216 P3
112390 6620  3333   4939 1-05-72    120  50         1   9051  142740          01 131140  53111  194258      G3
0999   IKAI,ROBE  337664     3481 1 100                 9011  348107  48107       44354  44354   88708 1202 P3
112400 6620  9900   3481 1-05-72    100  50         1   1050   48107          01  43439  43439   86878  917 G2
0999   LHAD,CHAR  397922    31832 1 100 400         1 1 4091  397922              80471                  412 M1
112410 6620    30   3979 5-10-71    100  50         1 1 8109   97081          09  78722                  706 G1

***DEALER TOTAL***   OUTSTANDING NUMBER    314    OUTSTANDING AMOUNT $   570,946.50

                                                                     SPECIAL RESERVE $      .93
***DEALER UNEARNED***          BANK DISCOUNT   375,[illegible]6.42     DEALER RESERVE
***DEALER TOTAL ON AMOUNT SUBSIDIZED***  AMOUNT OF BALANCE SUBSIDIZED $  264,239.53   AMOUNT OF BALANCE ELIGIBLE $  202,429.92
                          TOTAL ON FISL $433,737.66        TOTAL ON USAF $61,962.52        TOTAL ON SAGY $
```

TRIAL BALANCE

This report is produced and forwarded to the lender monthly. The report is in account number sequence and contains two lines of information per account. (See example on facing page.)

PURPOSE

Provides a complete listing of all active accounts, printed with totals. The trial balance is designed to handle the greatest percentage of inquiries about an account as well as being a reference point for such use as quoting rebates for accounts. To support the information shown on the trial balance during the course of the month, a cash receipts journal is produced daily, updating pertinent information on accounts which have had activity. The cash receipts journals are forwarded to the lender on a weekly basis.

CONTENTS

Column headings on the report are for the most part self explanatory however the following detail briefly explains certain headings used which may be in question and of interest to the lender.

COLUMN HEADING	BRIEF DESCRIPTION
DEALER	- Bank number assigned to lender
PURPOSE	- First two digits percentage of loan eligible for interest benefits (partial subsidy) Second two digits percentage of loan eligible for special allowance
PY SCH	- Payment Schedule Code (only one applicable to student loans) 1. Monthly
LATE CHGS PAID	- Amount of late charges collected by the Service Center for credit of lender
LT CHGS WAIVED	- Amount of late charges waived by Center or Lender or collected and retained by Lender

COLUMN HEADING		BRIEF DESCRIPTION
10-29	-	Number of times 10 to 29 days past due
30-59	-	Number of times 30 to 59 days past due
60+	-	Number of times 60 or more days past due
AMOUNT OF NOTE	-	Original principal plus students share of interest
DISCOUNT	-	Original amount of interest to be paid by student
LIFE INSURANCE	-	Original amount of interest due from government
DY REBT CHANGES	-	The day of the month the next rebate amounts become effective
UNEARNED AMOUNTS		
DISCOUNT	-	Amount of current and next unearned interest due from borrower
LIFE INSURANCE	-	Current and next unearned interest due from government
TOTAL	-	Current and next total of unearned amounts
DT LAST MONETARY	-	Month and day of last monetary transaction
DT LAST STATUS	-	Month and day of last status transaction

COLUMN HEADING	BRIEF DESCRIPTION
MT	- Type of last monetary transaction P - Payment D - Miscellaneous debit C - Miscellaneous credit R - Payment reversed
FLAG	- Account Flag G1 - Special allowance G2 - Interest benefits G3 - Both special allowance and interest benefits

TOTALS

DEALER TOTAL - Lender's number of accounts and the accumulation of outstanding balances.

BANK DISCOUNT - Total of all rebates e.g. unearned interest.

AMOUNT OF BALANCE SUBSIDIZED - Total amount of principle balances eligible for Special Allowance.

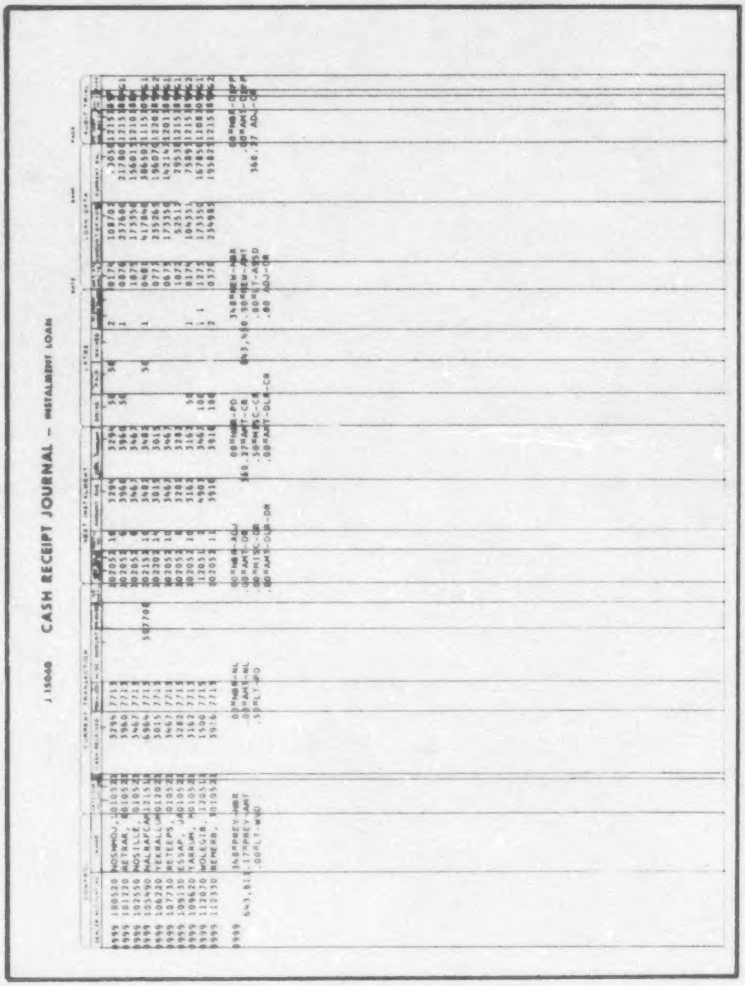
AMOUNT OF BALANCE ELIGIBLE - Total amount of principle balances eligible for interest benefits (partial subsidy).

TOTAL ON FISL - Total amount of principle balance outstanding on Federally Insured Student Loans.

TOTAL ON USAF - Total amount of principle balance outstanding on United Student Aid Funds Loans.

TOTAL ON SAGY - Total amount of principle balance outstanding on (State Agency) State Operated Student Loan Programs.

CASH RECEIPTS JOURNAL



J 15040 CASH RECEIPT JOURNAL - INSTALMENT LOAN

CASH RECEIPTS JOURNAL

This report is produced daily and forwarded to the lender weekly. The report is in account number sequence and provides a detail listing of all monetary transaction activity which supplements the trial balance between trial balance runs. It shows the action taken on each transaction, balances after updating, and a picture of the next installment due. The cash receipts journal evidences the credits and debits made to the lender's account for payments and late fees received.

CONTENTS

Column headings on the report are for the most part self explanatory, however, the following detail briefly explains certain headings used which may be in question and of interest to the lender.

COLUMN HEADING	BRIEF DESCRIPTION
CONTROL	
DEALER-ACCOUNT NO.	Lender number and borrower's account number
NAME	The first nine letters of the borrower's last name
CURRENT TRANSACTION	
TRAN CD	7713 Payment received by Center 7716 Payment received by Lender
LATES	
OWING	Amount of charges owing
PAID	Amount of late charges paid
WAIVED	Late charges received by Lender or waived by Service Center or Lender

CASH RECEIPTS JOURNAL

COLUMN HEADING	BRIEF DESCRIPTION
LATES	
HISTORY	
10-29	- Number of times the loan was 10 to 29 days late
30-59	- Number of times the loan was 30-59 days late
60 +	- Number of times the loan was 60 days or more late

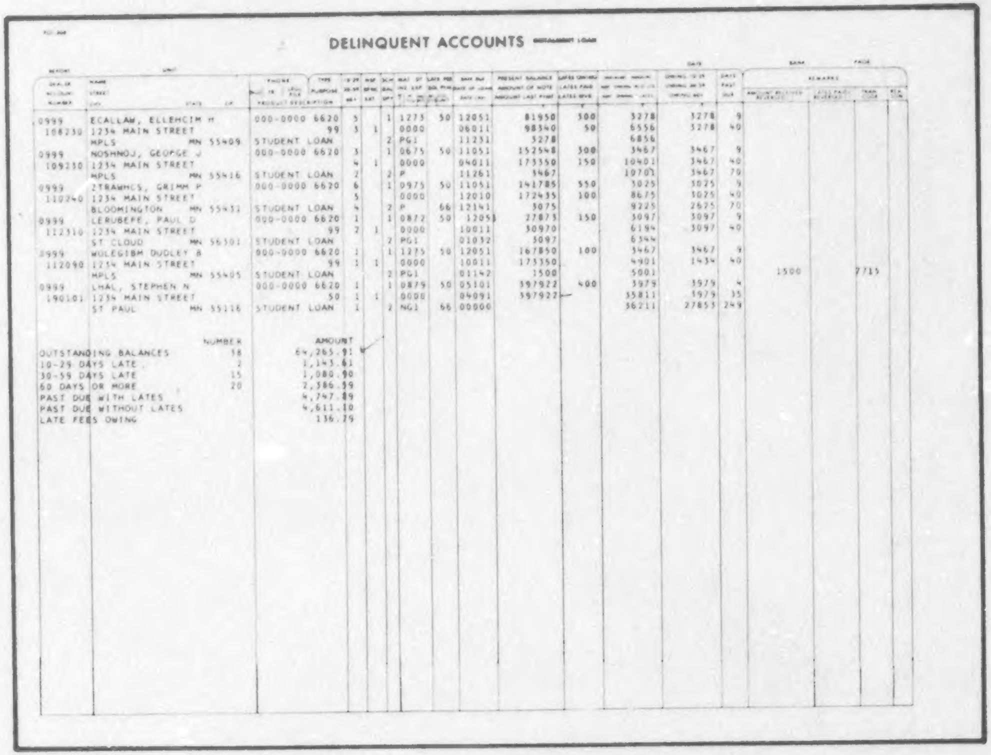
TOTALS

Prev - NBR	- Total number of payout loans serviced prior to posting
NBR - NL	- No. of new loans going on system this day
NBR - Adj	- Number of adjustments this day
NBR - Pd	- Number of loans paid in full this day
New - NBR	- Total number of payout loans serviced after posting
NBR - Diff	- Difference in number being serviced
Prev - Amt	- Total outstanding balance of loans serviced prior to posting
Amt - NL	- Amount of new loans processed this day
Amt - DR	- Total of all debits posted by Service Center
Amt - DLR DR	- Total of debit advices received from Lender
Amt - CR	- Total amount of payments received by Service Center
Amt - DLR CR	- Total amount of payments received by Lender and/or rebates on unearned interest
New - Amt	- Total outstanding balance of loans after posting
Amt - Diff	- Not applicable
Lt - WVD	- Total late fees collected by Lender or waived by Service Center or Lender
Lt - PD	- Total late fees received by Service Center
Misc - DR	- Total of miscellaneous debits posted
Misc - CR	- Total of miscellaneous credits posted
Lt - Assd	- Total late fee assessed during this days processing
ADJ - DR	- Total amount of debits initiated by the Service Center
ADJ - CR	- Total amount of credits received directly by the Service Center

The formula for arriving at the total amount of money due "Lender" is:

Lt-PD less ADJ-DR plus ADJ-CR = Total Amount Due Lender

DELINQUENT ACCOUNTS REPORT



DELINQUENT ACCOUNTS

```
0999   ECALLAW, ELLEMCIM H         000-0000 6620  5     1  1273  50  12051    81950   300    3278   3278   9
108230 1234 MAIN STREET                          99  3  1     0000      06011    98340    50    6556   3278  40
       MPLS               MN 55409 STUDENT LOAN            2  PG1       11231     3278          6856
0999   NOSHNOJ, GEORGE J           000-0000 6620  3     1  0675  50  11051   152548   300    3467   3467   9
109230 1234 MAIN STREET                             4  1     0000      04011   173350   150   10401   3467  40
       MPLS               MN 55416 STUDENT LOAN   2     2  P         11261     3467         10701   3467  70
0999   ZTRAWHCS, GRIMM P           000-0000 6620  6     1  0975  50  11051   141785   550    3025   3025   9
110240 1234 MAIN STREET                             5        0000      12010   172435   100    8675   3025  40
       BLOOMINGTON        MN 55431 STUDENT LOAN   4     2  P     66  12141     3075          9225   2675  70
0999   LERUBEPE, PAUL D            000-0000 6620  1     1  0872  50   1205    27875   150    3097   3097   9
112310 1234 MAIN STREET                          99  7  1     0000      10011    30970          6194   3097  40
       ST CLOUD           MN 56301 STUDENT LOAN            2  PG1       01032     3097          6344
0999   WOLEGIBM DUDLEY B           000-0000 6620  1     1  1275  50  12051   167850   100    3467   3467   9
112090 1234 MAIN STREET                          99  1  1     0000      10011   173350          4901   1434  40
       MPLS               MN 55405 STUDENT LOAN            2  PG1       01142     1500          5001                 1500        7715
0999   LHAL, STEPHEN N             000-0000 6620  1     1  0879  50  05101   397922   400    3979   3979   4
190101 1234 MAIN STREET                          50  1  1     0000      04091   397922         35811   3979  35
       ST PAUL            MN 55116 STUDENT LOAN   1     2  NG1   66  00000                  36211  27855 249

                                 NUMBER           AMOUNT
OUTSTANDING BALANCES                 38        64,265.91
10-29 DAYS LATE                       2         1,143.61
30-59 DAYS LATE                      15         1,080.90
60 DAYS OR MORE                      20         2,386.59
PAST DUE WITH LATES                             4,747.89
PAST DUE WITHOUT LATES                          4,611.10
LATE FEES OWING                                   136.79
```

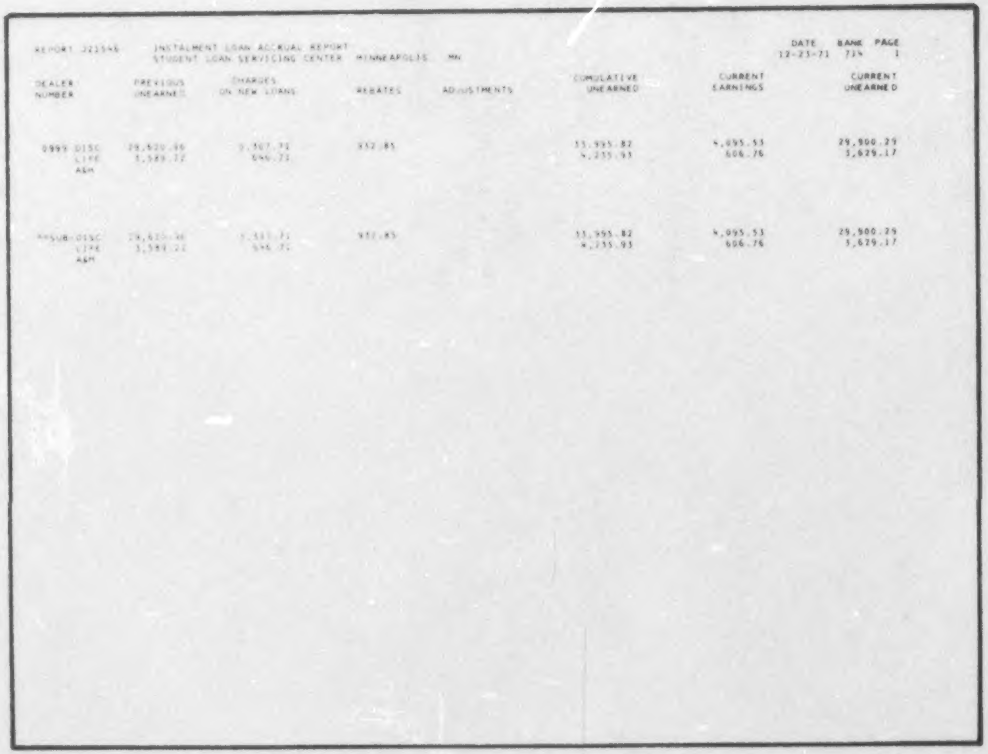
DELINQUENT ACCOUNTS REPORT

This report is produced weekly in account number sequence and contains three lines of information per account. It provides a detail report on all accounts 15 days or more past due. In addition, it is used to report payment activity on delinquent accounts and accounts which have become past due since the last complete delinquent report. (See example on facing page.)

CONTENTS

Column headings on the report are for the most part self explanatory, however, the following detail briefly explains certain headings used which may be in question and of interest to the Lender.

COLUMN HEADING	BRIEF DESCRIPTION
PURPOSE	- First two digits percentage of loan eligible for interest benefits (partial subsidy) Second two digits percentage of loan eligible for special allowance
10-29	- Number of times the loan was 10-29 days past due
30-59	- Number of times the loan was 30-59 days past due
60+	- Number of times the loan was 60 days or more past due
MAT DT	- Month and year of maturity
AC FLG	- Account Flag G1 - Special allowance G2 - Interest benefits G3 - Both special allowance and interest benefits
#DL PYM	- Number of payments paid direct to Lender
LATES WVD	- Late charges paid direct to Lender or waived by Service Center or Lender



REPORT 321546 INSTALMENT LOAN ACCRUAL REPORT
STUDENT LOAN SERVICING CENTER MINNEAPOLIS MN

DATE 12-23-71 BANK 714 PAGE 1

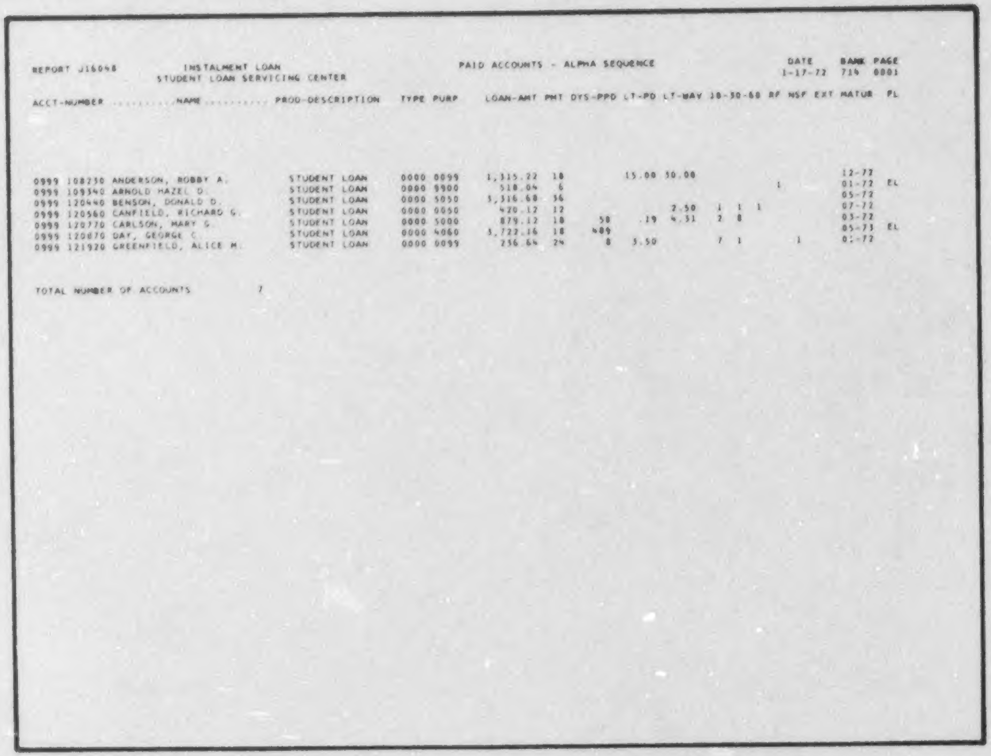
DEALER NUMBER	PREVIOUS UNEARNED	CHARGES ON NEW LOANS	REBATES	ADJUSTMENTS	CUMULATIVE UNEARNED	CURRENT EARNINGS	CURRENT UNEARNED
0999 DISC	29,620.96	5,307.71	932.85		33,995.82	4,095.53	29,900.29
LIFE	3,589.22	646.71			4,235.93	606.76	3,629.17
A&H							
**SUB-DISC	29,620.96	5,307.71	932.85		33,995.82	4,095.53	29,900.29
LIFE	3,589.22	646.71			4,235.93	606.76	3,629.17
A&H							

ACCRUAL REPORT

This report is produced monthly and provides accrual figures for interest due from borrower and government. It summarizes the amount of interest earned during the month based on the 78th's method. The line headed "Disc" is utilized to reflect the accruals of borrower's interest. The line headed "Life" reflects the interest accrual on loans eligible for partial subsidy (interest benefits) due from the government. (See example on facing page.)

CONTENTS

COLUMN HEADING	BRIEF DESCRIPTION
PREVIOUS UNEARNED	- The unearned interest of all loans now on the file as it was on the first day of the month
CHARGES ON NEW LOANS	- Total interest due of all new loans converted to payout during the month
REBATES	- Total unearned interest rebated during the month on prepaid loans
ADJUSTMENTS	- Any adjustments made during the month
CUMULATIVE UNEARNED	- Unearned interest at end of month
CURRENT EARNINGS	- Interest earned this month
CURRENT UNEARNED	- Net unearned interest at month end



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REPORT J16048           INSTALMENT LOAN                            PAID ACCOUNTS - ALPHA SEQUENCE                     DATE    BANK PAGE
                   STUDENT LOAN SERVICING CENTER                                                                     1-17-72  714  0001

ACCT-NUMBER ..........NAME........... PROD-DESCRIPTION   TYPE PURP     LOAN-AMT PMT DYS-PPD LT-PD LT-WAV 10-30-60 RF NSF EXT MATUR  FL



0999 108230 ANDERSON, BOBBY A.          STUDENT LOAN     0000 0099     1,315.22  18         15.00  30.00                     12-72
0999 109340 ARNOLD HAZEL D.             STUDENT LOAN     0000 9900       518.04   6                                1         01-72  EL
0999 120440 BENSON, DONALD D.           STUDENT LOAN     0000 5050     3,316.68  36                                          05-72
0999 120560 CANFIELD, RICHARD G.        STUDENT LOAN     0000 0050       420.12  12                  2.50  1  1  1            07-72
0999 120770 CARLSON, MARY G.            STUDENT LOAN     0000 5000       879.12  18      58   .19   4.31  2  8               03-72
0999 120870 DAY, GEORGE C.              STUDENT LOAN     0000 4060     3,722.16  18     409                                  05-73  EL
0999 121920 GREENFIELD, ALICE M.        STUDENT LOAN     0000 0099       236.64  24       8  3.50         7  1         1     01-72

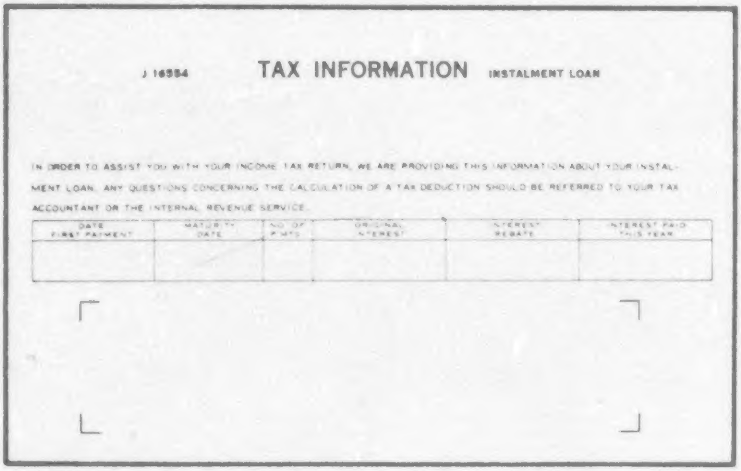
TOTAL NUMBER OF ACCOUNTS           7
```

PAID ACCOUNTS REPORT

This report is produced daily in alphabetic sequence, and forwarded to the lender weekly. It provides a listing of all paid-in full accounts for use in the internal bank functions such as releasing of notes to borrower. (See example on facing page.)

This tax notice provides borrowers with interest charges for income tax purposes. It is produced annually for all active accounts. When a loan is paid up during the course of the year, this notice is produced for that account on the day it is paid off.

These tax forms will be forwarded to the lender for distribution to their student loan borrowers. (See example below.)



J 16584 **TAX INFORMATION** INSTALMENT LOAN

IN ORDER TO ASSIST YOU WITH YOUR INCOME TAX RETURN, WE ARE PROVIDING THIS INFORMATION ABOUT YOUR INSTALMENT LOAN. ANY QUESTIONS CONCERNING THE CALCULATION OF A TAX DEDUCTION SHOULD BE REFERRED TO YOUR TAX ACCOUNTANT OR THE INTERNAL REVENUE SERVICE.

DATE FIRST PAYMENT	MATURITY DATE	NO. OF PMTS	ORIGINAL INTEREST	INTEREST REBATE	INTEREST PAID THIS YEAR

ELKINS
INSTITUTE

EXECUTIVE OFFICES [illegible] INWOOD RD [illegible] DALLAS TEXAS [illegible]

February 7, 1975

FEB 12 1975

The Honorable Lloyd Bentsen
United States Senator
912 Federal Building
Austin, Texas 78701

Dear Senator Bentsen:

Enclosed is a letter that I received from the HEW relative to the funding system we are using for federally insured student loans. Also enclosed are copies of a letter from Mr. Kohl to our bank, my original answer, and a letter which I requested from Mr. Kohl by telephone. Although this situation concerns me for the benefit of my own company, I am even more concerned for the state of affairs under the Federally Insured Student Loan Program.

The Federally Insured Student Loan Program is now approaching a $7 billion program. Default rates are extremely high and the entire program has been fraught with problems since its inception. Instead of attacking the real problems, the Department of Health, Education and Welfare has continually "nit-picked" items such as the long distance lending program as is discussed in the enclosed letters.

To begin with, the Office of Education does not have the authority to decide which students do and which students do not get federally insured student loans. Legislation provides that any student who is enrolled in good standing at an accredited institution on at least a half-time basis and is a citizen of the United States may be eligible for the loan. It also provides that the bank or lender, whoever that may be, will make the decision as to whether or not to make one of these loans. Since there is no provision for direct control, the HEW continually tries to regulate by innuendo as opposed to specifics. This is where the real problem begins. One of the primary purposes of the loan was to qualify students who were unable to obtain credit due to their age, background, and lack of borrowing history to borrow money to further their education. This, in turn, would take the strain off the Government for grants and loan money and only the problems relative to paying the guarantee would remain. However, since the current default rate is high, the HEW continually claims that banks did not use due diligence in making the loans (the whole purpose of the guarantee is to provide credit for people who otherwise could not obtain credit) or did not use due diligence in collecting the loan. The HEW has never provided specifics relative to defining due diligence. Hence banks and other lenders simply shy away from the loan because of its low yield, its high administrative expense, and the problems relative to whether or not the guarantee is really a guarantee.

The HEW has continually claimed that these loans should be made by banks "for the good of the country" and should not be looked upon as "money making" loans. They refuse to accept the fact that their regulations, and moreover their innuendos alluding to what may be interpreted from the regulations, cause the administrative costs to be three and four times as high as the administrative costs on other loans. The bank cannot have a known interest rate going into the loan since the only thing the HEW will guarantee is a 7% yield. The maximum a bank could expect would be 10% which in recent history would be far below the necessary yield, especially considering the high administrative cost. The method of picking the interest rate between 7 and 10% has been admittedly a "dart throw". Banks simply do not make loans based on "guesstimates" of future interest.

The innuendos and veiled threats relative to the guarantees have continued to decrease the number of outlets for federally insured loans and have left the loan with absolutely no credibility from lending institutions. The only institutions that will make these loans are those that do it under pressure. The pressure may be from individuals who have large accounts at the bank (hence the student doesn't need the loan any way) or the pressure may be from the school itself. Laws are written which prohibit points, premiums, or other incentives to be given to the bank (by the school) for making such loans. Since the HEW knows that, in fact, these loans do have an unpalatable yield, banks that do make the loans are automatically suspect. The only way a bank could make money out of this type of loan is to do it in mass volume so that they can have specialists who develop procedures to a fine science. Yet when this is done, the HEW accuses the schools and banks of having an "arrangement" which is automatically insinuating that they are not following regulations, even though all business done anywhere in the United States at any time is by "arrangement".

If, in fact, it is the Government's intention to eliminate the federally insured loan, I think it would be well that the Government forewarn those who may desire to participate in this program. If, in fact, it is the Government's wish to make the loan a credit loan, then why not remove the guarantee anyway? Students who have credit could get the loan to begin with. The original act was passed knowing that defaults would occur. These defaults were theoretically to be considered the same as a grant for those students who could not make the payments. If, in fact, the defaults were not to be grants, then strict rules for collection should be proposed for legislative action. The banks and other lending institutions should not be told on the one hand that they are to help the country by helping educate its youth, and on the other hand if they do they run the risk of having their guarantee revoked because of lack of "due diligence".

If the Government truly wants to collect the past due defaults, it could do so through the Internal Revenue Service, or the Social Security System. Both of these entities provide vehicles wherein students who default for a valid reason (did not get what they paid for and were not capable of upgrading their income level) would pay back the default anyway out over a much longer period than students who defaulted simply because they knew they could bilk the Government that way. Answers to why this couldn't be done have ranged anywhere from "Are you kidding, two agencies of the U. S. Government work together" to the IRS saying "There is no room on our forms to provide collection data". With several billion dollars at stake, I cannot understand the Internal Revenue Service refusing to reprint its forms (no matter what it costs) if this simple revision is all that is necessary to accomplish the task.

As you can see from the enclosed letters, we participate in this program in a relatively small way. One of our competitors has used up to $320 million worth of federally insured loans. This school and others have in effect carried their own guarantee and have not submitted some of their paper in order to keep good relations with the Government and with the banks. However, due to the fact that the HEW continually cuts off each lending source by one vehicle or another, the cash flow for all schools, whether they be proprietary or university level, is going down. This has the three-fold effect of (1) eliminating a number of educational institutions when, in fact, we need more educational institutions, (2) causing these institutions who are left to be so tight on money that they cannot afford to provide a quality education, and (3) just as important, the threat of massive defaults in the range of hundreds of millions of dollars to be returned to the Government for self preservation of schools involved.

I have served as a Consultant to the Commissioner of Education on the Federally Insured Loan Program for the past year. One of our Board members also served as one of seven Consultants to the Commissioner of Education on federally insured loans for the past year and currently serves on the Advisory Council of Financial Aid to Students of the Office of Education. Our Financial Aid Officer serves on many state, regional and national financial aid advisory committees. Yet the HEW continually admits "Yep, we got a problem" but doesn't do anything about it while the "problem" that they are relating to grows by more than a billion dollars per year.

There are several very simple things that would make the program work. They are as follows:

1. Increase the interest rate of the loan to entice lending institutions to consider this a favorable alternative, and make the interest fluctuate with the times on an established formula compatible with the banking industry so that banks

would not have to guess at their future liquidity.

2. Insert the federally insured loan in the capital adequacy section of the banking laws so that these laws would benefit the banks.

3. Provide strict guidelines for servicing procedures and make them to conform to normal bank and installment loan procedures.

4. Set up a system wherein the student pays interest or at least small principle payments while in school and immediately therafter so that he cannot later claim that he thought the Government was giving him a grant. This would also give the bank a record of the student's payment habits and an opportunity to work with him before he gets out of school. The bank would have no more than one month lag time before discovering that a student has changed his address. Under present regulations contact with the student is difficult to maintain since his non-payment status spans the length of time he is in school in addition to nine months thereafter.

5. Negotiate an arrangement with the IRS or Social Security System which would be retroactive and thus eventually collect all claims turned in by the banks.

6. Pay claims immediately upon verification of meeting the due diligence requirements as specifically outlined.

The above would eliminate the need for any school to make arrangements with lending institutions and would remove the mountains of claims. It would also furnish an easy method of financing education for the country's youth, as well as those who need retraining. Education cannot be used as collateral and most educational institutions are inherently poorly financed. Thus, the availability of funds for student financing is the only way to make sure that educational institutions themselves survive without more and more federal assistance.

The above data is important to me both as a business man and as a citizen of the United States interested in fairness to our taxpayers and education of our youth. I will be glad to meet with you and talk about alternatives and work with you in any way possible to get the proper changes made. It is important to our country from a financial viewpoint, as well as an educational viewpoint.

Yours very truly,

B. B. Elkins

B. B. Elkins,

President

MAR 7 1975

404 Thomas Street
Scottville, Michigan
49454
March 1, 1975

Senator Claiborne Pell, State of R. I.
The Senate
Washington, D. C. 20000

Dear Senator:

I read with great interest an article in the January 1975 issue of the Mid-Western Banker in which it was stated you believe guaranteed student loans should be discontinued.

As an officer in the local bank I would like you to know that this bank has been very selective in granting loans to only members of our banking customers and still experience far too much delinquency. These loans only bear a 7% annual percentage rate with some supplemental government interest payment depending upon the prevailing retail interest rates in effect. In the past year we have gotten into the process of rewriting some loans into monthly payment pay-out contracts with the students as they have now graduated or quit school. Believe me this is a consistent grind to hound these students for small payments which are set at a very minimum. In the first place the government has paid the full interest for one to four years plus eight months and after that it takes up to five more years to get the loan paid on monthly payments. Naturally, we request the Michigan Student Loan Association to pick up the unpaid loan balance when the loan gets stinky enough to comply with redemption regulations. However, by this time the bank has spent hours of time and dollars of expense on these low-income producing loan in which the investment could be in a much higher producing income.

The two proposals extended by Lewis E. Davids, Hill Professor of Bank Management, University of Missouri, should be given immediate consideration and should be given retroactive effect on all loans now in existence.

Irregardless, some means of enforcement must be made to stop the irresponsible attitude and lack of responsibility being used by recipients of student loans. As a citizen and tax payer I support your decision to discontinue the student loan program.

Sincerely yours,

Manley B. Peterson

United
Student Aid
Funds

A Not for Profit Corporation
Serving Education

Charles W. V. Meares, President
and Chief Executive

Executive Office
200 East 42nd Street
New York, New York 10017
(212) 661-0900

February, 1975

Student Loans and Bankruptcy

The growing default rate of student loans is a matter of considerable concern to everyone interested in student loan programs. Much thought has been given to ways and means of improving the default rate but it is a difficult problem to deal with because it may well be related to such matters as social climate, campus attitudes and other hard to define, hard to measure factors. There is one part of the default problem, however, that could be dealt with effectively through legislation. That is the matter of bankruptcy.

While it is true that, so far, only a small proportion of student loan defaults are attributable to bankruptcy procedures, this proportion is growing rapidly as more and more student loan borrowers become aware of the availability of the bankruptcy route. Unless steps are taken to close this loophole, the bankruptcy problem could grow to a point where it might seriously damage and possibly destroy the student loan programs. If this were to happen, it would have disastrous consequences to the overwhelming majority of student loan borrowers who are conscientious and want to meet their moral and legal student loan obligations.

United Student Aid Funds, as a not-for-profit, tax exempt organization with the sole function of helping students borrow money for higher education, is much concerned with the bankruptcy question as it pertains to student loans. United Student Aid Funds is the only private guarantor of student loans operating nationwide. It also is the administrative agent for the student loan programs of several states. Since it began its operations in 1960, United Student Aid Funds has guaranteed more than 500,000 student loans totaling about $400 millions.

Because of our deep interest in student loans, we have prepared a paper on the subject of student loans and bankruptcy. We are pleased to enclose a copy and will be glad to supply additional copies upon request. We hope you will take the time to read this paper and, if you share our view, do what you can to help achieve legislative action.

Charles W. V. Meares

Charles W. V. Meares
President

CWVM:ms
Enclosure

Executive Committee: Horace H. Wilson, Chairman, Retired Senior Vice President, Equitable Life Assurance Society • Charles W. V. Meares, President and Chief Executive, United Student Aid Funds, Inc. • Stanley T. Crossland, Retired Vice President, Texaco Inc. • Robert M. Hendrickson, Senior Vice President, Equitable Life Assurance Society • James R. Kennedy, Vice Chairman, Celanese Corporation • Herbert E. Longenecker, President, Tulane University • Donald C. Platten, Chairman, Chemical Bank • J. Fred Risk, Chairman, Indiana National Bank

UNITED STUDENT AID FUNDS, INC.

Student Loans and Bankruptcy

A matter of considerable concern to all those interested in keeping student loan programs alive and thriving is the default rate. It has risen to a level, particularly where the guarantor is the Federal government, that would have been unthinkable a few years ago. Even in the private and state sponsored programs, the default rates are much higher than they used to be, although they are considerably lower than the Federal rate. For example, United Student Aid Funds, the only private guarantor operating nationwide, is currently having to buy as "defaulted" about 6% of its matured paper. While this is well below the Federal level of between 14% and 18% (exact figures not available but the Office of Education has publicly stated this is the range), it is still considerably higher than it was a few years ago.

The increasing awareness of the default problem is causing strenuous efforts to be made to prevent defaults in the first place and to pursue vigorous collection practices after they have occurred. The latter includes an increased use of professional collection agencies. Lamentably, more and more defaulters are frustrating these efforts by seeking the haven of bankruptcy. Thus they can entirely avoid repayment of the student loans that enabled them to attend college and other institutions of post-secondary education (vocational schools, etc.). In most cases, this is obviously a gross misuse of the bankruptcy laws. If it is allowed to go on, it could very seriously damage all student loan programs, as practically any student just emerging from college with a burden of student loan debt can demonstrate that his liabilities exceed his assets and thus can avail himself of the privileges of bankruptcy. We don't have any figures for the Federal government but for United Student Aid Funds the facts are as follows: 85% of our defaulters who take advantage of the bankruptcy route do so within three years of getting out of school. It is apparent, therefore, that such bankruptcies are produced by the student loans themselves and not by the hazards of business undertakings or other circumstances normally contemplated by the bankruptcy laws. We have seen many cases where student loans represented more than 90% of a bankrupt's liabilities; 60% to 70% is commonplace.

Because this increased misuse of bankruptcy has troubled a great many people, there have been suggestions from several quarters that the bankruptcy laws be amended to except student loans from the usual discharge provisions of such laws, at least for a five-year period following cessation of studies. The Commission on the Bankruptcy Laws of the United States was sympathetic to these suggestions and incorporated such a provision in their proposed revision of the laws submitted as part of their official report which they made in July, 1973. On October 9, 1973, Representatives Edwards and Wiggins of California submitted to the House of Representatives H.R. 10792, a revision of the bankruptcy law, modeled on the Commission report, which included in Sec. 4-506-(a), a provision excepting from discharge "(8) any educational debt if the first payment of any installment thereof was due on a date less than five years prior to the date of the petition and if its payment from future income or other wealth will not impose an undue hardship on the debtor and his dependents." A companion bill in the Senate contained the same provision.

In view of the more-or-less universal handwringing that has been going on over the abuse and misuse of the bankruptcy laws by students, one might expect that this proposed provision in the revised law would meet with general enthusiastic acclaim. Strange to say, this has not been the case. True, there has not been, so far, concerted opposition, but neither has there been much whole-hearted support. The typical reception might be described as "damning with faint praise." In some quarters, where strong support might have been expected, a hands-off position of neutrality seems to be developing. Without vigorous support, Congressional action may well not be forthcoming.

Why hasn't the proposed change generated greater support? The principal reason seems to be a reluctance by a number of people to add to the already long list of "exceptions from discharge" and the feeling that the change would create two classes of creditors: first class and second class. The argument goes "Why should a lender who provided funds for college tuition be paid in full while a lender who provided funds for the purchase of an automobile to enable the student to get to college is forced to accept perhaps as little as 5 cents on the dollar, or even nothing?"

The counter-argument, of course, is that a proper distinction can and ought to be made between student loans and other kinds of loans. Student loans are made at low rates of interest and represent, at best, a non-profit endeavor for the lender. Mostly lenders lose money on them but are willing to make them solely because they serve a very worthy purpose for the public good. Other kinds of loans are usually made at much higher rates of interest which allow not only a profit margin but also a margin for loss. There are two principal arguments for excepting student loans from bankruptcy discharge, one being the low interest rate and the non-profit nature of the lenders' operation. The other is that anyone lending money to a student, who has no collateral and no earnings, is obviously doing so on his faith in the student's future earning potential. The student knows this, enters into the arrangement voluntarily on this understanding and, therefore, should not be entitled to relief except in cases of real hardship. And even hardship should usually be a reason for postponement, not for forgiveness.

In our view, the present law is unwittingly creating an intolerable situation. Bankruptcy was never intended to provide an escape hatch for student loan borrowers who quite knowingly mortgage their futures, futures which are usually much brighter financially as a result of the mortgaging. While so far the great majority of defaulters are not filing for bankruptcy, the practice is growing and represents a considerable threat to the integrity of the entire student loan program. With inflation, the larger families of the post-war years and the rapidly rising costs of education, all the signs point to a greater need than ever for student loans. It would be a national disgrace if our inability to close the bankruptcy loophole should lead to the debilitation and perhaps abandonment of programs that are so essential to the continued well-being of the nation's education process. We must not let the great majority of student borrowers who are faithful in carrying out their legal and moral obligations be deprived of the opportunity to make student loans.

Charles W. V. Meares, President
United Student Aid Funds, Inc.
200 East 42nd Street
New York, New York 10017

February 3, 1975

Senator PELL. The hearing of this subcommittee is recessed until the call of the Chair.

[Certain information supplied for the record in the interest of economy was not printed but may be found in the files of the subcommittee.]

[Whereupon, at 11:28 a.m., the subcommittee recessed, subject to the call of the Chair.]

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